S. HRG. 100-98 PT. 1

DEPARTMENTS OF COMMERCE, JUSTICE, STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 2763

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF COMMERCE, JUSTICE, STATE, THE JUDICIARY, AND RELATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1988, AND FOR OTHER PURPOSES

PART 1 (Pages 1-1087)

ARMS CONTROL AND DISARMAMENT AGENCY
DEPARTMENT OF COMMERCE
DEPARTMENT OF STATE
FEDERAL COMMUNICATIONS COMMISSION
FEDERAL MARITIME COMMISSION
INTERNATIONAL TRADE COMMISSION
MARINE MAMMAL COMMISSION
MARITIME ADMINISTRATION
OFFICE OF U.S. TRADE REPRESENTATIVE
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DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

WEDNESDAY, FEBRUARY 18, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:02 a.m., in room S-146, the Capitol, Hon. Ernest P. Hollings (chairman) presiding.

Present: Senators Hollings, Inouye, Lautenberg, Rudman, Weicker, and Kasten.

FEDERAL COMMUNICATIONS COMMISSION

STATEMENT OF MARK S. FOWLER, CHAIRMAN

ACCOMPANIED BY:
ED MINKEL, MANAGING DIRECTOR
MARILYN McDERMETT, ASSOCIATE MANAGING DIRECTOR, OPERATIONS

OPENING REMARKS OF SENATOR HOLLINGS

Senator HOLLINGS. This morning we begin the review of the fiscal 1988 estimates of the Departments of Commerce, Justice, and State, the Judiciary and 21 Related Agencies. All told, we have 112 appropriation accounts to deal with, and the aggregate requests for fiscal 1988 are for $14,704,371,000.

SUPPLEMENTAL REQUESTS

Last year we appropriated $12,941,485,000, but there are supplementals requested amounting to $659 million to implement the new Immigration Reform law, the new Federal Retirement law, cover exchange rate losses, 52 new bankruptcy judgeships and other requirements.

RESCISSIONS

The President has again proposed rescissions totalling $283 and some million for EDA, trade adjustment, Sea Grant, coastal zone management and the Public television facilities grants. These rescissions have all been proposed before, they have been rejected by the Congress, and I expect they will be rejected again.

Since we are at our 302(b) allocation, we must obtain a modification in our ceiling before moving forward with the supplementals. If we do get the increase in our ceiling, we are looking at a 1987 level of approximately $13,317,500,000, which is a $1.4 billion below the level proposed for fiscal 1988.

AREAS OF MAJOR INCREASES FOR 1988

The main increases proposed for 1988 are the preparations for the 1990 Decennial Census, NOAA's satellites and weather service programs, immigration reform, prison construction, expansion of the war on drugs, State Department security and other provisions, the Judiciary, the Securities and Exchange Commission, the USIA, including a $10 million increase for the National Endowment for Democracy, which I hope will be extinguished. [Laughter.]

PROGRAM DECREASES

Senator HOLLINGS. However, in addition to these increases, we also find that the administration is proposing program decreases of approximately $1.3 billion. I don't think we are going to be able to go along with those reductions. The main elements are EDA and other items they have opposed since 1981.

The staff has looked over these and, without the benefit of hearings or detailed review, have recommended for 1988 Subcommittee Budget Committee allocation of $15.8 billion in budget authority and $15.6 billion in outlays.

They believe that within these levels we can meet the priorities of the Congress and the requirements of the agencies. Without objection, these amounts will be given to the full committee for incorporation.

Is there any comment or objection to those amounts? My distinguished chairman? I have got nothing but chairmen here. [Laughter.]

Senator HOLLINGS. I have all you chairmen, Mr. Chairman, Mr. Chairman. I have got two chairmen on the left. That is what the staffs, your staffs and ours, have come forward with is $15.8 billion in BA and $15.6 billion in outlays.

Let me yield to my distinguished colleague on my right, Senator Rudman, and you tell us how you can handle Mark Fowler. [Laughter.]

Senator RUDMAN. With patience, with patience. [Laughter.]

No, I don't really have any opening statement. I just want to say, Mr. Chairman, I can't think of anyone I would rather play musical chairs with. This is the first hearing of your—I won't say new chairmanship. There was a 6-year interruption, but you are back.

Senator HOLLINGS. It was an interruption, wasn't it? [Laughter.]

Senator RUDMAN. I even understand everything you say when you speak very rapidly now. [Laughter.]

So I am looking forward to the year, I tell you, and we will have a very good year. I think we will continue to work as we have in the past and do it together.

Senator HOLLINGS. You are wonderful. I appreciate and look forward to working with you, and our real old-time chairman, Senator Weicker?

Senator RUDMAN. Very old. [Laughter.]

Senator HOLLINGS. And the one that should be chairman, Senator Inouye, I am glad you are here. We must have committed some offense; you are looking at us.

Senator INOUYE. This is not the Iran committee? [Laughter.]

Senator RUDMAN. That is the one thing that Mark Fowler managed to stay out of. [Laughter.]

Senator HOLLINGS. All right, do you have any opening statements to make? I will yield to you.

Senator INOUYE. Mr. Chairman, I have written several questions I would like to submit to you on Must Carry and financial interest syndication. I don't want to take up all the time, because the responses, I am certain, would take at least an hour. If I may, I would like to submit them to you.

Mr. FOWLER. Very well, sir.

Senator INOUYE. For your considered response?

Mr. FOWLER. Yes, sir.

Senator HOLLINGS. Good. We thank you, Senator Inouye.

BUDGET REQUEST

In opening the FCC hearings here, we have the $107,250,000 request from the Federal Communications Commission. This is $12,250,000 over the current appropriations. However, it is just 36 positions, and it is $3,996,000 over the FCC's 1988 base level of $103,254,000 after allowing for a 1987 supplemental in funds that were otherwise available to the Commission.

Appearing on behalf of the Commission is Mark S. Fowler, the Chairman, who is accompanied by Mr. Ed Minkel, the Managing Director and Ms. Marilyn McDermett, the Associate Managing Director for Operations.

Senator HOLLINGS. Mr. Fowler, your full statement, we will just print that in the record, if you please, and you can read it if you wish or summarize, whichever way you would like to present it. We welcome you and are glad to hear from you.

Mr. FOWLER. I think in the interest of time, Mr. Chairman, I will not read it. I will put it in the record and ask that it be made a part of the record.

AGENCY MANAGEMENT RECORD

I would just say that in terms of the management of the agency, I think we have a record of very careful stewardship, of constantly becoming more efficient because of technology and competitive forces. However, we continue to have an increasing workload in spite of deregulation.

The budget request that we have before you, we think, represents an effort by us to continue to hold the line. We have an increase of

$12,250,000, of which we have basically uncontrollable costs of two-thirds of that, or $8,254,000, basically because of the Federal Employees Retirement System increases and the 1987 pay increase and other uncontrollable cost increases. We continue to want to do more with less.

TELECOMMUNICATIONS POLICY

In terms of telecommunications policy, I think our record is quite good. Some people may quarrel here and there with parts of it, but the fact of the matter is that during our stewardship of 6¾ years, the American people have realized benefits such as rates dropping by 30 percent. That is good for consumers.

COMPETITION

Competition is good and firm out there. The international competitive forces are beginning to make their presence felt around the globe. We are in the middle of an information revolution. We hope progress can be made. We are hoping that Judge Green will rule in 1987 and hopefully make the information revolution become a reality for millions of Americans, particularly residential subscribers and small business users.

BROADCAST AUTHORIZATIONS

On broadcast authorizations, we continue to authorize new television stations. About 30 percent of all of the television stations that are on the air today were put on since I became Chairman. We have found more consumer choice out there in the video market. The same is true of the radio market. We continue to think that deregulation is the way to go.

In areas where we do not think there is competition, however, we have not hesitated, Mr. Chairman, to continue to regulate. For example, AT&T is still subject to the full panoply of ratepayer regulations they were subject to 30 or 40 years ago. So we feel very good about our operation, and we will open it up for any questions you may have.

[The statement of Mark S. Fowler follows:]

PREPARED STATEMENT OF MARK S. FOWLER

CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION

Mr. Chairman, I appreciate the opportunity to review with you the Federal Communications Commission's Fiscal Year 1988 Budget Estimates. With me today are senior staff members, including: Edward Minkel, Managing Director; Bert Halprin, Chief of the Common Carrier Bureau; Jim McKinney, Chief of the Mass Media Bureau; Mike Fitch, Chief of the Private Radio Bureau; Diane Killory, General Counsel; Arlan Van Doorn, Deputy Chief of our Field Operations Bureau; Thomas Stanley, Chief Engineer; John Kamp, Director of our Office of Congressional and Public Affairs; Peter Pitsch, Chief of the Office of Plans and Policy; and Marilyn McDermett, the Associate Managing Director for Operations.

Our FY 1988 Budget Estimates propose a total of $107,250,000 and 1,888 positions. This represents an increase of $12,250,000 and 33 positions over our Fiscal Year 1987 appropriation. Of this increase, over two-thirds is to cover uncontrollable cost increases.

$6,700,000 is required to cover the annualized costs of the FY 1987 Federal pay raise and the increased agency costs resulting from the new Federal Employees' Retirement System. The remaining $1,554,000 represents the funding needed to meet other uncontrollable costs increases, such as higher office space rental, an extra day of pay for employees and other inflationary price increases.

Twenty-seven and a half percent of the request represents an adjustment to restore base funds to non-personnel accounts and to allow the Commission to fill a large number of vacant positions and to approach our Congressionally authorized staffing levels. Over the past six years the Commission has reduced its staffing level from an authorized ceiling of 2,153 full-time permanent positions in FY 1980 to a current authorized ceiling of 1,855. This represents a reduction of almost 14% in the ceiling. Currently, we are 120 positions short of this authorized number. This has been the result of inadequate funding in recent years which has required that we implement either partial or complete hiring freezes. This severe reduction of our staffing level, if allowed to continue, will limit our ability to meet the demands of our increasing workload in a timely and responsive manner.

Through improved use of automation and through ongoing deregulatory efforts, we have made significant gains in staff productivity and in meeting our workload demands with our reduced staff. However, if this lower level of staffing continues for an extended period, we will be unable to meet our application processing and other high priority goals. We must act on over 900,000 applications each year. I believe, however, that with the personnel resources requested in this budget, we can successfully meet our growing workload challenges.

The final protion of the FY 1988 increase reflects a modest 5% to cover programmatic changes. These increases total an increase of $653,000 and 33 positions. 35 positions are needed to operate our Fee Collection Program which will be implemented on April 1 of this year. This program will collect approximately $36,000,000 in FY 1988 in receipts for the U.S. Treasury. One additional position is requested for the Field Operations Activity. In April of last year we saw how an individual could override a satellite signal—the infamous "Captain Midnight" episode. This additional position will be used to hire a satellite investigative specialist to supplement our capacity to enforce our interference rules. Finally, this budget request includes a program decrease of three positions in the Common Carrier Activity. As the regulated telephone companies provide us with independent detailed audits of their operations, we believe we can eliminate one of the audit teams we presently have without adversely affecting our regulatory responsibilities.

These personnel changes account for approximately two-thirds of the programmatic increases requested in our FY 1988 budget. In addition, we are requesting a modest amount to improve our physical plant, to provide limited funds for technical equipment to improve our satellite monitoring function, and to increase the amount available for official representation and reception expenses. $100,000 is needed to replace the air conditioning system at our Laurel Laboratory facility. The present heating and air conditioning system is very old and is becoming uneconomical to maintian. The frequent breakdowns of the current system reduce staff productivity and decrease our ability to provide timely response to the public. Another $100,000 is required to upgrade the equipment used in our satellite monitoring facility at Laurel, Maryland. With the rapid technological changes taking place in the telecommunications industry, much of our equipment is obsolete. Without reliable equipment which is capable of monitoring the most technologically advanced systems, we will have difficulty carrying out our enforcement mandate. Finally, we are requesting an additional $1,000 for official reception and representation expenses.

This covers the major areas of our FY 1988 budget proposal. However, I would like to take another minute to bring you up to date on our request for auction legislation. As you know, the FCC has been discussing a proposal with Congress for the last year which would provide statutory authority to auction certain non-broadcast spectrum. The President recognized this effort by including prospective funds collected in his FY 1988 Budget to Congress. At a time when we all have great concern over the deficit, this proposal could generate approximately $600 million in revenue to the U.S. Treasury and at the same time allow the Commission to assign spectrum more efficiently. I sin-

cerely hope that you will look favorably on this proposal because of its significant benefit.

This concludes my prepared statement. I would be pleased to answer the Subcommittee's questions.

CROSS SUBSIDIZATION AFTER DIVESTITURE

Senator HOLLINGS. How do you get that revolution in communications after Judge Greene, when we still don't have an accounting system so it can be properly administered? That is assuming, of course, that you opened up, as you indicated from your comments, the markets and everything else to regional companies?

How do you prevent cross subsidy?

Mr. FOWLER. We have just come out with a docket in late 1986, Senator, which is designed to ensure that there are no subsidizations or anticompetitive activities. It is a very complex document but suffice it to say that we think the allocation methods we prescribe in that docket will work and will be backed up by a number of enforcement mechanisms:

First of all, we require the Bell operating companies in the new environment to subject themselves on an annual basis to complete audits by outside certified public accountants. They would then have to certify the results of their audits, which are on-site, following paper trails, to make sure that they are in compliance with the policies we have set forth as to how costs are allocated between competitive and regulated activities. These policies have been set forth in considerable detail, by the way.

We will then spot check, using our own people, the audits that are submitted to us each year by the CPA's. We will rely also upon complaints from competitors who will be vigilant in monitoring the markets.

We have the benefit of having not one, but seven companies we can compare as to cost parameters; that is, if one Bell operating company is beginning to put more costs into a competitive activity than others, it will show in terms of the percentage comparisons when you compare all seven Bell operating companies.

We will also use our own people to visit Bell operating companies, on-site, to conduct our own indepth audits, depending upon which area we think needs to be covered or which company needs to be scrutinized more carefully.

So we are very confident that we can make sure that ratepayers will be protected in this new environment if it is, indeed, made possible for the companies to engage in these other competitive activities.

Now, we know that letting the Bell operating companies, Senator Hollings, into some of these markets will result in fuller and more vigorous competition; there is no question about that. The question is, can we ensure that: (A) ratepayers don't subsidize those activities; and (B) can we make sure that whatever monopoly bottlenecks the Bell operating companies continue to enjoy cannot be used as leverages to engage in any anticompetitive activities against their competitors.

We have Computer III, among other things, to set up certain structures that will be designed to prevent anticompetitiveness. Those are the two concerns we have.

Senator HOLLINGS. The concern is there. You have got the design. But with the tremendous size and complexity of this field, that is totally inadequate. In any event, we will have hearings on that. I think that is one thing I should point out. We haven't had many oversight hearings in communications.

Our distinguished colleague, Senator Inouye, now chairs the Communications Subcommittee. I am confident that we will be deep into communications. He has international communications hearings set already for later this month. They will be awaiting Judge Greene's decision, but we will have many other oversight hearings that we just haven't had for about 6 years. Senator Goldwater left the committee, but we couldn't get any. I was the ranking member on the subcommittee, and we never met. You have had free running room, but you have got it until April. I don't think I will tie you down much until after April. After then, we will look at that new chairman and see whether we can get to Mr. Halperin, too, or are you going to take him with you?

Mr. FOWLER. I wanted to make one point on the question that you had asked earlier, Senator. We have had a lot of experience so far in dealing with cross subsidies. We have set up structures with regard to AT&T in the provision of enhanced services and terminal equipment designed to prevent cross subsidies. That system seems to be working quite well in the marketplace.

We had competitors, people who sell terminal equipment tell us it would be a bad thing to let the Bell operating company sell terminal equipment, that it would be a terrible thing from the competitive standpoint, and that ratepayers would subsidize. Wrong again. We have policed that very well by everyone's standards, and all observers give us high marks on that. It is not as though we don't have a lot of experience over the last several years in ensuring those things that we don't want to happen, in fact, don't happen.

Senator HOLLINGS. Very good, sir.

If any of you gentlemen have another hearing, I want to yield to you so we can move on.

Senator INOUYE. I have questions for the FMC.

FAIRNESS DOCTRINE

Senator HOLLINGS. All right. We will move right along, then. I have got some other questions here for the record with respect to the fairness doctrine. Of course, you and I have had quite a lot of difficulty there. As far as the Meredith decision, in 6 days you just issued a rule, and it took you 4 months until last Friday to issue a notice for the study, when we were going to have this hearing. Why did you delay so long on the congressionally mandated study on the fairness doctrine?

Mr. FOWLER. We haven't delayed it at all. In fact, we have until September 30 to get that report into the Congress, and we fully intend to meet that deadline.

Senator HOLLINGS. The notice of comment wasn't issued until last Friday?

Mr. FOWLER. Yes, sir. Well, there are matters of priorities, and it is not that we gave it low priority, but we knew that, consistent with the deadline that we had, if we put it out about this time, we would be able to safely meet the congressional deadline and comply fully with your intent.

There is no intention to try to somehow disregard what the Congress has told us to do, and we will do that, and we will do it fully in compliance, fully within the letter and spirit of that directive.

MEREDITH DECISION

Senator HOLLINGS. The Meredith decision may not become effective for quite some time, in light of the petition for an en banc hearing, as you well know. Are you going to withdraw the notice for comments, or do you intend to move right on anyway?

Mr. FOWLER. We are going to move on with the request for comments on the Meredith case, which, by the way, we did not have to do. It is an adjudicatory matter, but with an abundance of caution, we thought the better course would be, since there is a very large issue involved, to put this out for public comment.

That, as a matter of discretion, is something that we did which I think is more consistent with full due process on this issue.

But to answer your question, we will not decide the Meredith case before we bring in our report to the Congress on the question of whether or not there are lesser means of enforcing the Fairness Doctrine. Whether they come in together or the Meredith case will come in slightly after we make our report to the Congress, we are not going to do Meredith prior to doing that.

Senator HOLLINGS. When will the Commission conclude these Meredith proceedings?

Mr. FOWLER. Sometime this spring, Senator, I would hope; sometime in March or April.

MUST-CARRY

Senator HOLLINGS. The public television community claims that they have lost three million cable subscribers since last July. Do you agree to that claim, or what is your reaction to that?

Mr. FOWLER. Senator, it is very hard to pin these down. We don't keep records on which cable systems carry which signals at any one time. They sometimes change. We are not getting a large number of complaints from consumers out there. We are not getting a large number of complaints from non-commercial television stations.

There was one allegation by one of the officers of the Association of Public Television Stations that about 200 non-commercial stations had

been dropped. We have no way of verifying that figure, but even if that figure were true, that would be a di minimus number.

For example, Channel 26 is probably carried on 80 or 90 cable systems in this area, just that one station. If you had six, let's say, that dropped Channel 26, let's take as an example, it is easy to see how you can get up to 200.

Actually, that is just a very small number in terms of the total number of systems that carry the total number of Public Broadcast Stations.

They may have done that because there are other duplicative, non-commercial stations in the area. For example, they may be in western Maryland, and they have decided they want to drop channel 26. But they have two other public television stations in Maryland that carry essentially the same programs.

We don't have any exact numbers, and I think that the numbers that they have given us indicate a very, very low return on this. As you know, in the decision that we made, we have provided very generously for the carriage of non-commercial stations, and we think it will result in approximately 89 to 90 percent of all stations being carried in the country, by and large, on most of the systems. So we think it is a very generous proposal, and most people who would look at this subjectively would agree with us.

AUCTIONS

Senator HOLLINGS. I notice, Mr. Chairman, that you say in your budget you are seeking to begin to allocate radio licenses by auction. Can you tell the committee about that, what the benefits are to the cost, and how do you protect, for example, public safety, community interests, minority interests?

Somebody can come in and just buy them all up. I might come down to the auction and buy them all up then retire like you. [Laughter.]

Mr. FOWLER. I certainly agree with your retirement part.

The cellular lotteries are a very constructive example of how businesses got the spectrum for free. We had an amazing number of applications that were filed when we used the lottery. The basic value is that we are giving away, in effect, two franchises to serve each market, and only two, and it is very lucrative. Most of the value of that is in the almost exclusive nature of it, that you have only one other competitor, and it can be a very good business.

Well, we were swamped with applications as you might guess. People filed lottery applications. It was like a lottery ticket, in effect, and you had to play to win. You had to come up with money for the application, and you entered the lottery. If you won, you could end up very, very wealthy, indeed, especially if you could turn around and sell it to some big company that wanted to be in the cellular business. We wanted to do that to offer people who wanted cellular properties to do that.

After doing all that in a veritable wave of applications, the question I have in my mind and still have is why do we not auction off this kind

of spectrum to these business people instead of giving it to them, which would do a couple of things:

One, it would get the service out faster to the people. We got bogged down with legal questions on the lotteries, settlement agreements and petitions. The idea is to qualify the people. We would have a bidding process. You show us that you are financially qualified, that you meet the statutory qualifications of having American citizenship and these kinds of things.

Once you are technically qualified, then we will put you into this auction, and the highest bidder will win. We will be sure that whoever wins is basically qualified, technically, legally, and economically, and so they are all just as good, one as the other; put the money into the Treasury; get the service out faster and put it in the hands of the people who value it the most. That was the idea behind it.

Now, to answer your question, we carved out broadcast properties. We are not proposing to subject the allocation of broadcast frequencies to auctions. We carved out the public safety people. There is no reason why they should be involved in that process. We have a responsibility to make sure they have the spectrum they need, and they ought not to have to pay for it.

But these other business people, I have to tell you, Senator, I didn't see one reason why they should get this. I would say we had one of the biggest welfare programs in Washington. We have given away probably billions of dollars in spectrum. Half the spectrum went to telephone companies, Bell operating companies.

The question: Why shouldn't they pay for that? Why shouldn't they be required to pay on the wire line side the same amount as the high bid on the non-wire line side? Now we are looking at allocating spectrum above one gigahertz for satellites, for Hughes satellite company and Ford and others who want to apply or companies that buy satellites from these providers. Why shouldn't they pay for those satellites? Why should we just grant those?

It would be a more efficient way, I think, of getting the service out and, as I say, speeding up the process. That is the whole idea behind it.

AUCTIONS

Senator HOLLINGS. I am for the idea of paying for it. Do you do this by sale or by lease?

Mr. FOWLER. They would still be subject to all of the rules and regulations of the Commission, and the license would have a fixed term, for example, 5 years, 10 years, and it would be subject to being renewed. They would have to rebid it, although they would have a right of first refusal, in effect.

Other than that, they would still be subject to all of the operating rules and requirements. They would be like any other licensee. They would not own the spectrum; they would, in effect, lease it.

Senator HOLLINGS. I have had a lot of the old, established operators over the years, successful ones, saying this, joining together with trying

to do away with the Fairness Doctrine, that you have exactly that, the money. We have gone to the other extreme. We wanted to do away with the bureaucracy, and every 3 years there was a justification, coming up with Washington lawyers, relicensing and everything else.

But then you go to the other extreme of just money talks, everybody qualifies, and you get this group, that group and everything. We are interested and economically sound, and yes, we are enthused and ready to operate, but if we don't tell them about the money, they will keep them and sell them.

A lot of that is beginning to occur right now, and people are coming into that broadcast industry, radios, TVs and otherwise, just moving them along; money matters, build them up, tear them down, just like the mergers you see going on in regular corporate America. You are beginning to see it in the communications field, particularly with doing away with the Fairness Doctrine. You don't have to do anything; get in there and make your money and move on.

Mr. FOWLER. I think that eliminating these 3-year attritions, if that is what you are referring to, and requiring a license to be 3 years has good effects. When I practiced law, a client bought a station, quickly knew they were in over their heads, didn't know what they were doing, but they had to hold it for 3 years in order to be able to make a profit on the station.

What did they do? They operated it in the most economical way possible, paid people minimum wage, held on to the audience and held on for 2 years and got the price they could get. We would rather have people get in who want to operate a station.

There was no reason to have a 3-year contract. Some people call them speculators. Other people take a station, turn it around and improve it because it was a better station to listen to and it provided better service. If it didn't have better service, it wouldn't have increased revenues.

DEREGULATION

I think it is very healthy. It is like any other business we have. I think broadcasting should be treated like any other business. I think they should be as free as newspapers. I think the Fairness Doctrine is a censorship doctrine.

We have a fundamental disagreement. Ultimately the courts will decide this. I think the equal time laws are no-time laws that essentially favor incumbents because they keep the challengers off the air. So on these First Amendment areas which are very difficult areas and we have fundamental disagreements on, these are Constitutional matters that I think will be in the courts sooner or later.

Senator HOLLINGS. That is the fundamental difference that we have, Mr. Chairman. You and I own a spectrum. We don't own a newspaper.

Mr. FOWLER. The newspapers use public streets. They use the sidewalks to put their stands on. They use public facilities.

Senator HOLLINGS. That is not limiting streets out there. That is a spurious comparison. You are a tricky lawyer if I ever met one, trying to compare the streets to the spectrum. Come on.

Mr. FOWLER. In World War II, a precise analogy, the Government rationed news print because we had a shortage, and the Government sold news print. Would you have proposed back then the regulation of newspapers?

Senator HOLLINGS. Newspapers don't run spectrums. I will yield to my ranking member.

Senator RUDMAN. Thank you, Mr. Chairman.

CELLULAR TELEPHONE LOTTERY

Mr. Fowler, I want to just continue the last part of the discussion on the spectrum question and how you are going to allocate it. It is a very fundamental problem, and I want to just look at how it was done. The way it was done makes no sense at all. I don't know the genesis of that policy, but I know that in my State of New Hampshire, which is, I believe—I am correct on that—the fastest-growing State in the union in every economic category, with incredible industrialization.

Mr. FOWLER. Including telecommunications.

Senator RUDMAN. A high income industry.

Mr. FOWLER. Right, high tax dollars.

Senator RUDMAN. The cellular license went to, I believe—I may be incorrect—but I believe it was either a truck driver or a diner operator from Atlanta. Now, what kind of lunacy is that?

Mr. FOWLER. It is not lunacy.

Senator RUDMAN. Of course it is lunacy, and I will tell you why: Because they need a minimal amount of money to get into the business and they had no prequalification. You can't do business with the State of New Hampshire to sell them a tractor without getting prequalified as competent.

What you are essentially doing is you are having the Irish Sweepstakes at the FCC. What you essentially did is you went and said, "Anybody who has a couple thousand bucks or is willing to take in a payer is welcome to put in an application. If your name is drawn from the hat, you have an asset." You can go around and negotiate and make a couple or $3 million and maybe you can win. That is by chance.

This Government shouldn't operate by chance. Why don't you prequalify people, make sure they have financial expertise? They don't have to be a diner operator if they can hire some people and charge for them and have them come to the door and maybe charge them for the spectrum.

Charge everybody for their portion of the spectrum. Maybe Channel 4 in Washington will pay "x" amount in Washington to use the spectrum because we own it. But why don't we get people who are qualified? Quite frankly, I am personally upset about this because I have a lot of people in our State who say, "Why is it that we don't

have cellular telephone service in the State of New Hampshire," because of the fact that you have a Bell Company that has it, and I am not sure whether or not we are moving any more rapidly.

But you would think the private entrepreneurs, if they got it, would have it up and running because there is a market for it. We don't know when we are going to have it up there. The policy has failed. I happen to agree with the Chairman. If you go to a straight auction, then you are going to take care of one part of the problem. You are certainly going to get service, but you are going to get it concentrated in a monopolistic way by having people coming in bidding enormous amounts of money because they believe that that is the way to make money.

If you have deregulation, they can get it back by having high rates. In the meantime, you get no competition whatsoever because their competition is not even qualified to get off the ground.

AUCTIONS

Take a third approach. I don't like the way it was done. I don't like the auction approach. Come up with an approach that puts value on the spectrum, but have qualified people coming up.

Mr. FOWLER. You say put value on the spectrum. How do you determine that?

Senator RUDMAN. You are the expert.

Mr. FOWLER. Let me tell you what our problem is. I agree with you that the lottery turns out to be a real Irish lottery. That is why we would like to have spectrum auction authority.

Senator RUDMAN. That gives you another problem, Mr. Chairman. That just gives you a totally different problem. You are throwing out the baby with the bathwater.

Mr. FOWLER. If the truck driver turns around and makes a lot of money from the person who ultimately implements it, have the Treasury get the benefit. If somebody is going to pay, have it be a direct transaction with the Government and an auction, instead of this two-step process.

Senator RUDMAN. Why don't you just prequalify them?

Mr. FOWLER. We did.

Senator RUDMAN. Really prequalify them.

Mr. FOWLER. They had to meet financial qualifications.

Senator RUDMAN. In the lottery?

Mr. FOWLER. Sure.

Senator RUDMAN. I have got news for you: I don't know who established those qualifications because I have seen the case studies of a dozen of them. Quite frankly, in my State, they wouldn't be qualified to sell the State of New Hampshire paper clips, okay? First, the system was abused, and it was just totally moved aside. People found the way around it, and it didn't work.

Mr. FOWLER. I understand.

Senator RUDMAN. I will tell you something. Congress isn't going to go along with your auction, although I happen to be a fiscal conservative. I am also a free enterpriser, but I am against market concentration. I am against monopolies. I am against the Government aiding monopolies. This will aid monopolies. You won't get anywhere with this, so why don't you go back to the drawing board?

Mr. FOWLER. It isn't going to be a monopoly because someone buys something. That isn't the case. If you have two people competing in the cellular market, you won't have a monopoly. You will have vigorous competition for cellular customers. We have seen that in market after market where cellular is up and running.

With respect to the people who did apply, truck drivers, we had these procedures which were fair and designed to let any Americans participate. They are Americans like anybody else, and they are entitled to participate.

Senator RUDMAN. Mr. Chairman, we don't let any American participate in selling guidance systems to the Defense Department. We shouldn't entitle any American to participate in this market. You are a free marketeer, and I have respect for some of your ideas. Some of your ideas have gotten off the reservation.

I don't know what else to say about it, but I will fight it to a dead stop on this one, and I think you ought to go back to the drawing board.

Mr. FOWLER. Senator, can I respond? That is a strong feeling.

Senator RUDMAN. That is not only a strong feeling, that is a deeply-held feeling. [Laughter.]

Mr. FOWLER. I understand, I think.

Senator RUDMAN. I hope so.

AUCTIONS

Mr. FOWLER. If you look at the ways you can allocate these, let's go through it. We held competitive hearings in the top 30 markets. The competitive hearings can go on and on for years with the ALJs and the parties who want this free spectrum, and then it goes up on appeal to the Commission and it takes years and years and millions and millions of dollars in litigation fees to get the service out.

I don't think anyone thought that was a good idea. Another thing would be to have a lottery, which we did. Basically, it became so valuable, we had thousands of people apply for them, and your example is a very good example of that. Somebody from Atlanta got lucky in the lottery. We tried to speed up the service, and that was the way we tried to do it. Because we don't have the auction authority, we don't have any other way to do it, and those are basically the three ways you can do it.

When you look at the other two, even though the third may not be perfect, auctioning the spectrum off, it makes a lot of sense because it puts the operation into the hands of somebody who will value it the highest and who wants to run it and who is presumably financially

qualified. It puts the money in the Treasury and it gets the service out very quickly.

Right now we have a two-step process where the truck driver turns around and resells it to the guy who ultimately wants it.

Senator RUDMAN. I think there is an option 3–A. I will only tell you that I find it a little bit inconvenient in my automobile in New Hampshire—mainly because I spend so much time between New Hampshire and Boston and can reach the Boston cell about 15 miles south—I find it very inconvenient to be in Manchester, New Hampshire, one of the most dynamic cities in America, on the turnpike and having to get out of the car in 22 below zero weather to make a phone call. I find that very discomforting.

Mr. FOWLER. If we had a spectrum auction, we wouldn't have that problem.

Senator RUDMAN. You don't have that problem in Hawaii with the spectrum.

Senator HOLLINGS. Senator Weicker?

MUST-CARRY

Senator WEICKER. Thank very much, Mr. Chairman. I just have a few questions, and one very specific in relation to the State of Connecticut. The broadcast community has been operating without any "must carry" rules since 1985. When do you expect the Commission to complete its reconsideration of the rules? Do you have any idea of the timing on that?

Mr. FOWLER. I think we probably will be able to get that in March or April. That is what our timetable is right now.

MINORITY PREFERENCES

Senator WEICKER. The Astroline Communications case, which is Channel 18 in Connecticut, was bought by a minority interest. What steps has the Commission taken to expedite resolution of the Shurberg Broadcasting case?

Mr. FOWLER. We have it up for comment now, Senator, and I think that we will try to bring that in as quickly as we can. I don't know exactly what the timetable will be. It clearly will be beyond the time I am there, and I would guess, if I had to guess, it would be sometime later this year, perhaps this summer or sometime in the fall.

Senator WEICKER. Why has there been so much delay on this case?

Mr. FOWLER. I don't think there has been delay. I mean, as soon as the court ruled that gender preferences were contrary to the public interest, we asked for the case back on remand, and then we put it promptly out for comment. So I don't think we wasted any time once the court acted on that.

Senator WEICKER. What are you doing relative to FCC policy since the court case? In other words, have you arrived at other guidelines?

Mr. FOWLER. What we decided to do, I believe, is to hold in abeyance those cases certified to us by the judge where they say the

preference based on gender or race, skin color, could be dispositive in that case pending a resolution of this proceeding.

In other words, we have got a generic proceeding now that asks whether or not there is a nexus between the use of either a gender or skin color preferences to achieve diversity in programming and whether or not that is the only way that that goal can be achieved, which is consistent with the Supreme Court case law.

The court is, in effect, forcing us now to deal with this very difficult issue, and so we are going to have to deal with it. The first thing we did was to put it up for comment, although we didn't have to, to get everyone's views on this.

HIGH DEFINITION TELEVISION

Senator WEICKER. As you know, over-the-air demonstrations took place just last month that show the coming of age of high definition television. In addition to broadcasting HDTV, the demonstrations showed the technology video cassette recorders and video discs indicating these new consumer items will hit the market in the next 5 years.

This does not take into account cable television's ability to deliver HDTV on demand. If broadcasters cannot provide HDTV service, they clearly will be disadvantaged. How can this be reconciled with your own stated goal of a fully competitive marketplace?

Mr. FOWLER. Senator, implicit in your question is the proposition that is vital; that we make sure that there is sufficient spectrum there for broadcasters at such time as they are able to use high-definition television, terrestrially, that is, over the area of signals. I agree with you on that.

I agree that, in order to have a level playing field, we have got to make sure they have that spectrum. Video broadcasters must have it. We don't know exactly where we will get that, but I am satisfied we will be able to achieve that.

The one thing we are looking at is whether or not they will be able to compress down the spectrum it takes to deliver HDTV over the next few years. It used to be at about 23 megahertz; it is down to about 8.2 megahertz now. The television channels operate within 6 megahertz channels, so we are getting close, but as you might also guess, as you get down in that range, then increasingly, getting any further gain becomes much more difficult on a geometric scale.

But we are hoping that technology will solve this problem. If it doesn't, then we will have to look to other spectrums to be used to achieve the result.

Senator WEICKER. I have one further question on high definition television I will submit for a response for the record. Let me, again, reiterate with regard to the Channel 18 operation, you know, I don't want to see these guys putting all their money into legal fees, and that is what really is going on here.

If there were problems raised by the Supreme Court decision, I can understand those have to be resolved in addition to whatever has to be

done specifically vis-a-vis Channel 18. But I think it has been quite a period of time that has passed since Astroline Communications took that station over. It seems to me something is owed. I don't care what the decisions are. That is not my business. That is your business. In terms of times consumed, that is my business as far as constituents are concerned, and I appreciate your paying attention to that.

Mr. FOWLER. Senator, I appreciate your position. I will go back and see if we can move that proceeding along or to make sure we can do that.

AUCTIONS

Senator WEICKER. Lastly, I was listening to the dialogue between you and Senator Rudman. I don't know what the resolution to that is. I would be anxious to hear what Senator Rudman's idea is. The lottery idea was awful.

It seems to me that the auction concept as raised by the Chairman does have merit in trying to take care of the various deficiencies existent in the other two systems.

If there is a fourth idea, I would like to find out about it.

Senator RUDMAN. You will. [Laughter.]

Senator WEICKER. All I am saying is, I don't think the chairman is off the wall in what he is suggesting. I think what he is trying to suggest are some proven deficiencies in the other systems that have been used. To that extent, I am glad somebody else is thinking about something new in that regard.

Senator HOLLINGS. Senator Lautenberg?

MINORITY PREFERENCES

Senator LAUTENBERG. I appreciate it, Mr. Chairman, and I appreciate the willingness of my colleagues to give me an opportunity to get in and get out.

Mr. Fowler, since the airwaves are so scarce, you and the Commission have a responsibility to make sure that they are used to reflect the diversity of views and the diversity of background and interests in our country.

One way is to promote the diversity of ownership, and that is to make radio and TV stations available to qualified blacks and other minorities, as well as to others.

A mere 2 percent of the broadcast stations are owned by minorities, but I can tell you that those stations serve a very important need to express a particular viewpoint and to serve those special needs. The Commission has had policies in place to give minorities and women an edge. In 1982, the Congress agreed; it required the FCC to award preferences to minorities when it issued broadcast licensing by lotteries, and, of course, we agreed.

The court in the TV 9 case and the West Michigan case approved minority preferences. Now the FCC is conducting an inquiry. It wants to know if a minority preference is needed to promote diverse program-

ming, but the Congress has said that apparently that is not good enough.

Apparently, you don't like what the Congress has said or if you disagree, paragraph 18 of your notice says, "We solicit comment on whether the Commission is bound by congressional findings of constitutionality."

Does that mean that the FCC puts itself in a position above the Congress, above the courts, to declare laws unconstitutional and to refuse to enforce them? It is a dilemma for us.

Mr. FOWLER. No, no, Senator, it doesn't mean that at all. It means the proverbial rock and the hard place, we need to look at the gender and race preferences on both public policy grounds and Constitutional grounds.

We have a number of cases that have come up in the Supreme Court dealing with gender and race as preferences that we have to also think about, too. On the other hand, we have Congress having said, for example, in the 1982 law which you referred to that we shall provide preferences when we use the lottery to issue licenses for low power television stations.

So that is the question, exactly. We are trying to find out what our duties are under the law, and we are getting advice from two very important bodies.

Senator LAUTENBERG. Don't you believe that you ought to take the mandate as given to you by Congress at this point while the other issues are being considered by the Judiciary?

Mr. FOWLER. Well, we haven't in any way changed our policy in the meantime.

Senator LAUTENBERG. What is being done?

Mr. FOWLER. Problems are still applied in adjudicatory cases. All we have said is if the judge decides a particular applicant wins, we want to hold those cases in abeyance pending what happens with this court case.

Actually, we have two of them that have raised the question of (*a*) whether or not race and gender-based preferences are Constitutional; and (*b*) whether or not they are good public policy.

One of the things I proposed—by the way, Senator, having dealt with minorities myself and as a practicing attorney and having represented a good number of them where I had to essentially float them, if you will, because they didn't have money in many of these competitive hearings—I proposed that we take some of the money from the spectrum auctions Senator Rudman has hesitancy about and use that as a revolving fund to provide, in effect, financing for people who are below a certain income level. I believe this would do more to accelerate minority ownership in telecommunications than anything we have done up to now. All the things you have mentioned we have done and a lot more. We only have 2 percent of the Nation's radio and television stations in minority hands, and that is because they have got to have the money in order to be able to go through litigation in order to get the

preferences. They have got to have the staying power. They don't have that.

MINORITY PREFERENCES

How much better it would be and what a better world it would be if we could take several hundred million dollars and put it in a revolving fund of loans that went out to people who met a "means" test. They could go out and buy stations in markets that they were interested in. I think we could do more to raise that number to, let's say, 10 percent in 3 or 4 years than we have done now fiddling around on the margins in the past 15 years.

That was one of my ideas. I still think it is a good idea. Of course, it ties into spectrum auctions here.

Senator LAUTENBERG. I don't want to deal with Senator Rudman's inquiry. He is of clear thought, and he will see that we——

Mr. FOWLER. I also wanted to put them into supporting public broadcasting. [Laughter.]

Senator RUDMAN. Do you have more sweetners for us, Mr. Chairman? [Laughter.]

Senator LAUTENBERG. How about taking care of my particular problem in the process, and then we will back off to the others? The Steel case dealt with gender, not minorities, am I correct?

Mr. FOWLER. Pardon me?

Senator LAUTENBERG. The Steel case?

Mr. FOWLER. Yes, sir.

Senator LAUTENBERG. Why do you feel that we can't proceed, then? In my view, there seems to be no question about whether or not you have the ability to make the decisions in the case of the minority.

Mr. FOWLER. Because the Steel case also discussed the very lengthy question of race-based preferences, although it didn't hold on that. Underpinning gender preferences is the same basis we use to justify race-based preferences. The two are implicated.

If you are looking at one, you are looking at the other. Constitutionally, from public policy, we felt it was imperative, as we looked at the Supreme Court case law, including the decision made in 1986 in the summer. We believe it was imperative to look at both of them at the same time, particularly since in many of these proceedings, you have both gender- and race-based preferences involved in comparing one applicant with the other.

So it seems, as a matter of fairness, imperative that we look at both of them at the same time as well as the facts; that the bases are the same for both.

Senator LAUTENBERG. I hope we can resolve the issue, because if you do not support the principle, then we cannot make sure that we have the opportunity for minorities and women to own these licenses and to present the diversity of views that I frankly think is essential if we are going to use our resources fairly.

One last thing, Mr. Chairman, very quickly. I want to just mention your initiative, Mr. Fowler, in the area of telecommunications trade. I am glad to see the Commission's notice of inquiry proposed rulemaking is on its way.

What took so long? I mean, in 1985, I sought language in the report on the supplemental appropriations bill asking you to examine your powers in this area. We got a response that I, frankly, thought was disappointing. The staff study essentially said you didn't have the power to use Part 68 to secure reciprocal treatment.

You raised questions about using Section 214 to secure reciprocal treatment in trade of transmission and switching equipment. Back in 1985, the staff suggested a broad Commission investigation. Now we have one, in 1987. Again, what took so long, and what do we have to do before we finally take the action to secure fair trade in telecommunications?

Mr. FOWLER. Senator, we worked a long time, I know, with your staff on the question of whether we could use our Part 68 with the equipment, taking into account notions of international economy vis-a-vis foreign suppliers. I think we spent about 9 months altogether in that process.

In the notice we put out in December of last year, we do ask whether or not we have the legal authority, and again, on Part 68, to do some of the things we propose. In that notice, also, we ask whether or not we have the ability to use 214 applications to require foreign providers, for example, with long distance service to obtain 214 authorization before they can provide long distance service to the United States. Presently, they don't have to do that.

So those questions still exist. Our position is the same as it was before. We don't know whether we have the legal authority. I guess one of the advantages of being chairman, Chairman Hollings, as long as I have been is that after awhile, you have a lot of foreign delegations coming in and promising this and promising that.

If you have a change in government, that guy is out and the new chairman is in, he doesn't have the institutional memory. In some respects, I think he can get away with that. I have been there long enough to remember the promises given to me in 1981 and 1982, and we are not getting very far. It seems to me some of the countries are not attempting to be trading partners but trading victors.

Senator LAUTENBERG. I think it is up to you, Mr. Fowler, to move the process as rapidly as you can to make sure it doesn't take 2 years to start the inquiry and to get us back on a basis where we are not being the fools in the equation.

Mr. FOWLER. Senator, I agree with you, and we are moving forward.

We did do one thing, Senator Hollings. You remarked on this, I believe, about a week ago about whether or not we had the authority, and again, we have an inquiry. But one thing we did do is say that if we were to put into effect certain sanctions against dumping of this

kind of a certain country, that we asked the question whether or not we should do that on our own or whether or not we should await an Executive Branch certification to us, let's say, from the STR saying, "We find country X——"

Senator HOLLINGS. You can forget about that. Don't wait on the STR. I have tried that.

Mr. FOWLER. The only problem is we are not trade experts. That is our difficulty now.

INTERNATIONAL TRADE

Senator HOLLINGS. Come on, now. Wait a minute. You haven't been an expert on anything?

Mr. FOWLER. I now yield.

Senator HOLLINGS. We have modesty around here now.

Senator LAUTENBERG. Thank you very much.

Senator HOLLINGS. Excuse me.

Senator Kasten?

Mr. FOWLER. Can I just say one other thing? I am not pandering here, because I am going to be leaving soon. [Laughter.]

Senator LAUTENBERG. You mean if you were staying you would pander? [Laughter.]

Mr. FOWLER. I am not saying I would pander, but I just wanted to say, Senator, that the fact that you were one of the first people to say what are you doing in telecommunications with respect to trade, that was what really first brought our attention to be immediately thinking about this, so I wanted to say that.

Senator LAUTENBERG. I asked for a reduction in the certification staff. I think you said it was one person. I said reduce him to a half.

Mr. FOWLER. It is a very efficient process. Perhaps it is too efficient.

Senator HOLLINGS. Senator Kasten?

Senator KASTEN. Mr. Chairman, thank you. First of all, I am pleased to be a member of this subcommittee, and I look forward to working with you and Senator Rudman.

Senator HOLLINGS. You are welcome.

MUST-CARRY

Senator KASTEN. I came late, and evidently, some of this Must-Carry issue has been covered. So I just wanted to say that I, too, am concerned. The Must-Carry rules have been in a state of turmoil and the decision not to issue the rules has been a difficult one for people in areas of Wisconsin. In Milwaukee, we have examples of people dropping public television stations. In Milwaukee, that is particularly difficult, because some of those public television stations were also associated with some of the school programs, and I am sure you have run into this kind of a problem in other places.

So it is important for me, as well as, I am sure, others here, that we move forward to get some kind of an expedited resolution of these rules and to go forward with the Must-Carry provisions. I am told that

this has been covered and that you are moving forward. I am anxious for you to do that.

Mr. FOWLER. I am a strong proponent of public broadcasting. Maybe that puts me out of sync with others. One of the things we did when we came in with our proposal was to enhance significantly the Must-Carry requirements for public broadcasting.

This was not in the industry proposal that came to us, and we did that on our own motion. Even so, but it won't be perfect, and again, when you have a finite number of channels and more stations than channels, it is very difficult to make everybody happy. But I think we have done a very good job of protecting essentially the public broadcasting, although again, I admit it is not perfect.

Yes, there have been some stations that have been dropped. But as near as we can tell, there is a di minimus number at this time.

Senator KASTEN. We want the delay to be over and whatever you are going to do, do. The fact that we are moving toward an expedited resolution now is important to us, and I thank you.

Mr. Chairman, thank you.

Senator HOLLINGS. Mr. Chairman, we have some other questions from the other members. We have some questions from Senator Bumpers I have some further questions, and Senator Domenici has some.

CUTS TO FCC BUDGET

We have appreciated your appearance and your service. I just noticed one thing. You say that inadequate funding in recent years in the budget request has led to a 14 percent reduction in the FCC appropriation. The truth is that yes, we did have to cut a couple of million bucks. In fact, it was $2,746,000 in the last 2 years or 1.4 percent. But over the last 5 years, you have had a $12 million increase, including that cut, $12 million over and above what the President's requests were.

Mr. FOWLER. Our workload has quadrupled. It is a very difficult call.

Senator HOLLINGS. I am talking about the "truthload". I am talking about the facts there.

Mr. FOWLER. I am just saying we will manage carefully whatever you give us.

Senator HOLLINGS. The staff who writes these things up and gets your approval should put down what the fact is.

CORRESPONDENCE

[CLERK'S NOTE: Subsequent to the hearing the chairman received the following letter from Edward J. Minkel. At the direction of the chairman, the letter and the chairman's response have been printed in the record.]

[The statement follows:]

FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

OFFICE OF
MANAGING DIRECTOR

FEB 19 1987

Honorable Ernest F. Hollings
Chairman, Subcommittee on Commerce, Justice,
State, the Judiciary and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Hollings:

Thank you for the recent opportunity to present the Commission's FY 1988 Budget Request to the Subcommittee. During the hearing you referred to the Statement that our Chairman entered into the record and indicated that it was incorrect. You further stated that the Commission had not had its budget reduced by 14% over the period 1980 through 1987. You are correct and we did not wish to indicate, or imply, anything to the contrary. The Chairman's statement indicated only that our authorized full-time permanent position ceiling has been reduced by 14% during this period. I apologize for any misunderstanding.

The Statement goes on to indicate that even with this reduced ceiling the Commission currently does not have enough funding in its budget to fill all of our authorized positions. This situation exists in part because of some reductions to the amount we have requested during the past several years during the annual appropriations process and because of partially absorbing the costs of Federal pay raises. However, much of the shortage in our personnel compensation and benefits accounts exists because of underfunded increases to our base average salary. Through normal turnover we can save some of the funds we need for promotions and withingrade costs, but certainly not all that we need. Over the years this shortfall has accumulated and has now reached the point where we cannot afford to fill a large number of vacancies.

The Subcommittee has always been quite receptive to the annual Budget Requests we have presented, and I certainly hope this congenial relationship will continue. If the Chairman's statement seemed to indicate anything to the contrary I assure you that was not our intention.

Sincerely,

Edward J. Minkel
Managing Director

March 16, 1987

Mr. Edward J. Minkel
Managing Director
Federal Communications Commission
1919 M Street
Washington, D.C. 20554

Dear Mr. Minkel:

Thanks for your letter in further regard to the questions I raised at the hearing about the reductions to the Commission's funding. Your explanation does much to clarify the original statement.

However, as the other questions I submitted for response in the record clearly indicate, this Subcommittee -- or at least this Chairman -- does not buy the argument that agencies have some authorized level of positions beyond the level funded. The authorized number of positions is purely and simply the number that can be funded in any particular year. If the appropriations are insufficient to fund all the positions that an agency formerly had or requested, then the number of positions is reduced. When an agency must absorb increases and is unable to sustain a former number of positions, then the number of positions must decrease.

In the past agencies have included funds to reduce lapse rates or otherwise recover erosion in the personnel compensation areas. I do not plan to fund such requests as base adjustments in the future. It will be my policy to treat such items as program increases.

With kind regards, I am

Sincerely yours,

Ernest F. Hollings
Chairman, Subcommittee on
Commerce, Justice, State,
the Judiciary

Senator RUDMAN. I just want to say, Mr. Fowler, I want to commend you for your service. You have been very creative, innovative, controversial and provoked a lot of thought. I always enjoy dealing with you, and I think you will be missed because you do bring a lot of imagination to this job. [Laughter.]

Mr. FOWLER. You didn't say that about 15 minutes ago. Thank you very much, Senator. I appreciate that very much.

Senator HOLLINGS. Thank you very much. We appreciate your appearance here today.

Mr. FOWLER. Thank you.

SUBMITTED QUESTIONS

Senator HOLLINGS. The subcommittee has additional questions it wishes to have answered for the record. They will be inserted at this point.

[The following questions were not asked at the hearing, but were submitted to the Commission for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

Auctions

Question: In your proposed budget, you are seeking to begin to allocate radio license by auctions. What are the benefits of this proposal? What are the costs?

Answer: The existing methods for selecting licensees from among mutually exclusive applicants are comparative hearings and lotteries. Both have severe drawbacks. Comparative hearings are costly both to the Commission and to applicants. It is also unclear whether such proceedings provide the type of information that enables the Commission to choose the applicants that will best serve the public. Moreover, the excessive length of the process harms the public by delaying the introduction of service. Because they induce many parties to apply, lotteries also impose delay and costs on applicants and the FCC. For example, before it was known that the Commission would use a lottery to award cellular licenses, only 1,200 applications were filed for the top 90 markets. Following the decision, more than 5,000 applications were filed for markets 91 through 120. It appears that many applicants viewed this lottery as a sweepstake. They submitted applications only to obtain a chance to resell a winning application or to be bought out prior to the drawing. Indeed, both logic and experience predict that for all their added cost and delay neither comparative hearings nor lotteries will greatly change the ultimate disposition of licenses if there is the opportunity for resale.

In contrast, auctions could:

1) Assign channels to the user(s) who can put them to their highest valued use without need for resale;

2) Reduce the budget deficit by raising substantial revenues for the U.S. Treasury, providing a benefit to the general public;

3) Reduce the amount of society's valuable resources (primarily legal and engineering expenses) used in preparing applications. These expenditures are not socially productive given the option of resale, since they do not affect the final assignment. This amount could be quite large, since the total amount spent by applicants on seeking a license may in some cases approximately equal the value of the license; and

4) Lower administrative costs by weeding out frivolous applicants -- those who have no intention of operating but only hope to gain through reselling a license won in a lottery or being bought out before the lottery even takes place.

Because of the narrow nature of the proposal we do not see any additional costs relative to the current system, except for the modest start-up costs of administering a new procedure. This proposed legislation would not alter in any way the Commission's obligation under the Communications Act of 1934 to allocate spectrum to those uses best calculated to promote the public interest. Thus, the Commission would continue to assure itself that its allocation of spectrum meets the legitimate needs of public safety and all other spectrum uses consistent with the public interest. Nor would use of auctions in selecting licensees vary the terms, conditions, or rights of the license from those that would obtain if the license had been awarded through either a comparative hearing or a lottery. Furthermore, the Commission's auction authority could be used only for unassigned spectrum. Under this proposal, existing licensees who have already received assignments would not be affected. Finally, this auction authority would not be utilized by the Commission in the licensing of any medium of mass communications, since we

do not wish to disrupt the present licensing system. Nor would this authority affect the public safety or amateur services.

Question: Will these auctions be for outright sale of spectrum or a lease for a number of years?

Answer: Under our proposal, the terms, conditions or rights of the license would be exactly the same for licenses obtained through an auction as those currently applied to licenses obtained through comparative hearings or lotteries.

Question: What will be the effect of auctions on the public safety community, minorities, and others whose use might further public interest goals but who lack the ability to pay?

Answer: Under the proposed legislation, auctions would not apply to public safety or amateur radio services, so users of these services would be unaffected. Nor would it apply to any medium of mass communications, the only services for which the FCC currently grants minority preferences. Furthermore, in those services for which auctions would be permitted, ownership patterns would not significantly change, because those investors with deep pockets can already use them in the resale market. Moreover, investors, whether large or small, will attempt to invest their money where the expected returns are highest. When a resource is sold, whether at an initial auction or a subsequent resale, the price paid will be a reflection of what the purchaser thinks he can earn, and the highest earnings will go to those who use it most productively. Those are the people who will pay the highest prices. Others, including many with deeper pockets, will choose to spend their money elsewhere, where they can use it more productively. Oil companies can pay top dollar for oil leases because only they can exploit them effectively. Other large firms certainly have the cash to be an effective bidder, but chose to use its money in what were, for it, wiser ways. Similarly, it will be those firms that can best use spectrum, not those with the deepest pockets, that will choose to pay top dollar to acquire spectrum licenses. And a process that gets these licenses into the hands of those that can use them most effectively is operating as it should.

Question: What will be the effect of auctions on international agreements on spectrum use?

Answer: Auctions should have no effect on international agreements on spectrum use. Auctions are proposed only as a licensee-selection alternative to lotteries and comparative hearings. Each licensee will have the same rights and responsibilities with respect to international agreements whether selections are made by lottery, comparative hearing, or auction.

Question: How will you prevent a few people from buying all the licenses and then holding them for later use far in the future?

Answer: First, it is important to emphasize that auctions would have no effect on the incentive or the ability of large companies to "warehouse" spectrum, given the availability of resale. Thus, the Commission has always had to assure itself that assignments were being productively used. If one party controls large amount of the market, it may have the incentive to restrict output to increase prices. This fear was a prime motivator of our ownership rules in the broadcast area and our construction and loading requirements in the mobile services. Recently, the Commission has begun to examine whether explicit restrictions are, in some cases, the most effective means of preventing warehousing. A recent NPRM wherein loading policies for SMRS are being re-examined is such an example. This reconsideration is appropriate for several reasons. First, in point of fact, warehousing does not appear to have occurred despite the option of acquiring licenses in the

aftermarket. Second, not all "warehousing" is necessarily socially undesirable. Just as the FCC has found it in the public interest to hold a certain amount of spectrum in reserve for future use, it may be socially optimal for private parties to hold some spectrum in reserve. Third, FCC review of license transfers will continue to guard against excessive concentration of spectrum under control of individual parties. Finally, the FCC will continue to enforce its due diligence requirements. This issue is not resolved, however. We are seeking comment from the public and no conclusions have been reached. In any event, the Commission remains committed to preventing inefficient underutilization of our nation's valuable spectrum. Auction authority will in no way alter the need for and the means of meeting this goal.

Question: Do you believe this auction proposal should be extended to other parts of the spectrum?

Answer: No. We believe that auctions should be limited to unassigned spectrum, and not used for licensing any medium of mass communications, public safety, or amateur services. The benefits of auctions as a selection mechanism would not apply if auctions were used for license renewals since there is no need to select among mutually exclusive applicants. Furthermore, it would be unfair to make current licensees bid for license renewals since they have generally already paid for their license either directly, if they bought it in the aftermarket, or indirectly if they paid high legal and other fees to win it through a comparative hearing.

There is no wish to disrupt the present licensing system for media of mass communications. Therefore, the proposed legislation prohibits the use of auctions in the licensing of any medium of mass communications, utilizing the same definition developed in the enactment of Section 309(i). Similarly we do not propose to use auctions for public safety or amateur services. In the past, the FCC has not had to select from among mutually exclusive applications for either public safety or amateur allotments. These services are characterized by shared (as opposed to exclusive) channels, strict eligibility requirements (i.e., only certain parties such as police or fire departments are eligible to apply), and a spirit of cooperation among users. Thus, we would not anticipate an occasion arising where competing applications would exist in these services. Nevertheless, we do not intend auctions to be used to award public safety or amateur licenses because of the undue hardship they could impose on these licensees.

Common Carrier Activity

Question: In its "international trade notice," the FCC proposes to adopt several new reporting requirements on foreign-owned and domestic common carriers, equipment manufacturers, and enhanced service providers, for the purpose of controlling the openness of the U.S. market to certain foreign entities. Does the FCC have the resources to implement these proposed policies? Will the FCC require an expanded budget to carry out these policies? Is the FCC acting in this area because it believes that it is the agency best suited to carry out these policies, or is it acting because no other government agency has decided to get involved?

Answer: The Commission's Notice, which examines the interrelationship of our regulatory policies and international telecommunications, is divided into two parts -- an inquiry and a proposed rulemaking. The inquiry focuses on the development of an international model for the provision of telecommunications equipment and services that is based on four objectives -- open entry, nondiscrimination, technological innovation and international comity. It also asks parties to provide comments on what actions we can consider given our statutory mandate, as well as what actions we should consider to promote the realization of this model in international telecommunications. The proposed rulemaking focuses on measures that would enable us to determine the nature and extent of foreign participation in the

U.S. market. The information gathering measures we propose are, in large part, based on traditional regulatory procedures and would not require substantial additional resources or an expanded budget. It is possible that some additional resources might be necessary to implement the types of measures we are examining in the inquiry portion of our notice, including actions that would serve to limit access to the U.S. market for firms from countries that are "closed" to U.S. firms. However, the notice states that we would envision taking such actions primarily after an executive branch determination that a specific foreign market is closed to U.S. firms. Therefore, at the present time, we do not believe that action on our part would require substantial additional resources. Finally, our concern and the reason for our involvement, as stated clearly in the Notice, is to ensure that the statutory goals set forth in the Communications Act are met. Our primary concern is the price, variety, quality, and technological sophistication of telecommunications goods and services provided to U.S. consumers. Of course, we have also worked, and will continue to work, closely with the other agencies, such as the United States Trade Representative and the National Telecommunications and Information Administration, as they seek to promote greater trade opportunities for U.S. firms abroad.

Question: When can a decision be expected on the Comsat/Contel merger?

Answer: An application for FCC consent to the merger of Comsat and Contel was filed on November 3, 1986. Comments and reply comments to that application were filed on December 18 and 29, respectively. The staff is conducting a review of the application and the issues raised by several petitions to deny approval of the merger. A decision is expected by late summer.

Question: What is the status of the Commission's notice proposing to deregulate certain basic services? When can a decision on this rulemaking be expected? How could a decision to reduce the regulation of certain services be implemented? Specifically, how does the Commission propose to isolate contract services that might be subject to reduced regulation? Won't carriers be able to qualify a service for reduced regulation simply by offering it under contract?

Answer: The Commission issued a Notice instituting this proceeding on January 9, 1987. Comments on this notice are due on March 6, 1987, and reply comments are due on April 7, 1987. A decision on this rulemaking is anticipated in late 1987. Under the proposal in this notice, the Commission would identify specific submarkets consisting of competitive services, and it would apply streamlined tariff regulation to the offerings of dominant carriers in those submarkets. The test for reduced regulation of any class of services, including contract services, is whether such services are being offered in a competitive environment. Thus, even if a carrier were to offer a service as a "contract service", reduced regulation would occur only if the Commission found that such contract services actually were offered competitively.

Question: What is the FCC's most recent information on market share trends of domestic carriers? Has AT&T's market share been falling, rising, or remaining steady?

Answer: There are now more than 500 long distance telephone companies operating in the United States, 200 of which are purchasing equal access from the Bell Operating Companies. AT&T's market share continues to fall. We can estimate AT&T's share of the interstate market by comparing the traffic handled by AT&T with the total amount of interstate traffic reported by the National Exchange Carrier Association:

AT&T Market Share
(% of interstate switched minutes)

1985:	Quarter 1	83.1%
	Quarter 2	80.3
	Quarter 3	78.5
	Quarter 4	77.2
1986:	Quarter 1	78.9
	Quarter 2	77.9
	Quarter 3	77.0 (preliminary)

AT&T's share of the interstate market is slightly higher if based on revenues, rather than on minutes; but the difference is only about one percentage point. AT&T's share of the interstate market would be slightly lower if AT&T's international operations were excluded, but again the difference would be small (about 3/4 of a percentage point). Because we do not impose reporting requirements on smaller carriers, we have little information on the revenues or market shares of the smaller carriers. The most recent summary of long distance carriers prepared by the Common Carrier Bureau's Industry Analysis Division is provided below. It contains a complete list of all long distance companies that have been identified by the Bell Companies as purchasing switched access and, for carriers purchasing equal access, the report contains a list of the states in which the carriers operate.

Question: AT&T has recently reported that the actual demand for its SDN and Megacom services has been well below the projected demand. What accounts for this substantial disparity? Would the FCC have permitted the tariffs for these services to go into effect if it had known that demand for these services would be so low? What are the projections of usage for these services in the future?

Answer: On December 15, 1986, in compliance with directions from the Commission in its investigation Orders on Megacom and SDN, the Common Carrier Bureau issued two letters to AT&T requesting information concerning the actual performance of those services for their first year of operation. In response, on January 16, 1987, AT&T filed reports for SDN and Megacom, providing tables and other data that pertain to the demand and revenues for a one year period. Comments on those reports were filed on February 20, 1987. Reply comments are due no later than March 6. Any decisions with regard to past or future use of these services will be made after the staff completes its analysis of the data, the comments, and the replies.

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This is an unofficial announcement of Commission action. Release of the full text of a Commission order constitutes official action. See MCI v. FCC, 515 F 2d 385 (D.C. Circ. 1975)

January 22, 1987

FCC RELEASES REPORT ON LONG DISTANCE CARRIERS

The FCC has released the latest available data on the number of long distance carriers offering service to the public and the geographic areas which they serve.

The report is based on monthly information provided by each of the seven Bell Regional Holding Companies. Each regional company has provided a list of carriers purchasing switched access from their Bell Operating Companies.

The report provides state by state information on the total number of long distance carriers purchasing switched access and equal access from Bell Operating Companies in 1986 and for selected areas in 1985. Also included is a list of 200 long distance carriers identified as purchasing equal access and a list of 516 long distance carriers identified as purchasing switched access service.

The report is available for reference in Room 537, Industry Analysis Division, Common Carrier Bureau, 1919 M Street, N.W. Copies may be purchased by calling International Transcription Service (ITS) at (202) 857-3800.

FCC

For further information, contact Katie Rangos (202) 632-0745.

SUMMARY OF LONG DISTANCE CARRIERS

INDUSTRY ANALYSIS DIVISION

FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

This publication presents a summary of the number of long distance carriers offering service to the public and the geographic areas which they serve.

In 1983, the Federal Communications Commission decided to "forebear" from regulating smaller long distance carriers. Among carriers providing interstate service, only AT&T, regarded as possessing market power and classified as a dominant carrier, remains subject to comprehensive economic regulation. Because the FCC has exempted smaller carriers from the burdens of regulation, the Commission receives no reports from such carriers.

This publication is based on information provided by each of the seven Regional Holding Companies that were formed as a result of the AT&T divestiture. Each regional company has provided a list of carriers purchasing "switched access" from their Bell Operating Companies. In very general terms, "switched access" means the use of facilities provided by local telephone companies at each end of a long distance call. Because all long distance carriers purchase access from local telephone companies, the number of such carriers can be supplied by local telephone companies without imposing reporting requirements on long distance carriers.

Each of the Regional Holding Companies has provided monthly information starting with January 1986. In addition, three of the seven regional companies were able to provide information on the number of long distance carriers in their service areas for the entire 1985 calendar year. Reports for a particular month are provided at the end of the following month. Thus, this document is based on data for the months of January through October 1986.

The report contains seven tables. Table 1 provides information on the total number of long distance carriers purchasing switched access from Bell Operating Companies in 1986. Information is provided for 47 states and the District of Columbia. Three states -- Alaska, Connecticut, and Hawaii -- are not served by Bell Operating Companies and are therefore not represented in the table. During October, the smallest number of long distance carriers were operating in Vermont (12) and the largest number in Texas (165). From January to October 1986, the number of carriers purchasing access increased in about 85% of the states.

Within any state, a carrier purchasing access may concentrate its efforts in serving only a few exchanges or a small portion of the state. Thus, the number of carriers available to a particular customer will tend to be far smaller than the number of long distance carriers that purchase access somewhere in the state. Since the larger long distance carriers serve many states, they are recorded as purchasing access in each state. Because of this, the state figures can not be added to estimate a national

total of long distance carriers. Our best estimate from the underlying data is that there are approximately 516 carriers serving in one part or another of the nation.

Table 2 presents similar data on the total number of long distance carriers purchasing access in those states where 1985 data is available. It is probably most useful in indicating the rapid growth in the number of long distance carriers during 1985. In the twelve states where complete 1985 data is available, the number of long distance carriers increased in 11 states and declined in only 1.

While Tables 1 and 2 include all long distance carriers, the remaining tables deal only with long distance carriers that purchase equal access. In Table 3, the number of long distance carriers purchasing equal access in each state is shown for January - October 1986. As with the first two tables, the states of Alaska, Connecticut, and Hawaii, are not included.

During October 1986, Maine, New Hampshire, and Vermont were reported to have the fewest long distance carriers purchasing equal access (3) and Texas was reported to have the largest number (50). From January to October 1986, the number of long distance carriers purchasing equal access increased in 30 states, remained constant in 15 states and declined in three states.

Table 4 contains information on the number of carriers purchasing equal access in 1985. Of the 12 states for which we have complete 1985 data, the number of carriers purchasing equal access increased in 11 and remained constant in 1. Since 1985 was a year during which many areas were first converted to equal access, part of the apparent increase in the number of carriers is undoubtedly due to carriers that were already serving the states but which upgraded their service by purchasing equal access.

Table 5 lists the 200 long distance carriers identified as purchasing equal access and the total number of states in which each carrier purchases such access. AT&T serves all of the 48 states for which we have data, closely followed by Sprint (46 states) and MCI (47 states). There are five other carriers that each serve 25 or more states and sixteen that serve 4 or more states. Most of the remaining carriers purchase access in only one state. Although these carriers may purchase access in only one state, most provide nationwide service from the area in which they operate by reselling services purchased from other carriers. Table 6 contains a detailed listing of each carrier purchasing equal access and each of the states in which they purchase equal access. Table 7 lists the 516 long distance carriers identified as purchasing switched access from the Bell Operating Companies.

In our first report, GTE Telenet was reported as a carrier purchasing equal access service. GTE Telenet has pointed out that its status is that of an "enhanced service provider" rather than a carrier. Accordingly, we have deleted GTE Telenet from our list of carriers. There may be other companies who are not carriers yet are purchasing equal access service.

There have been some inconsistencies in the way the information has been reported by the companies. We have tried to make the best judgments in putting together this table as well as Tables 1-6.

In this rapidly changing industry, mergers are not uncommon. For example, Allnet and Lexitel merged to form ALC Communications. These new changes are not reflected in the tables since this information is based on billing records and may lag in time.

This report and the monthly reports received from the regional companies are available in the public reference room of the FCC's Industry Analysis Division.

TABLE 1--TOTAL FIRMS PURCHASING SWITCHED ACCESS
FROM BELL OPERATING COMPANIES: 1986

STATE CODE	STATE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
AL.	ALABAMA	55	55	56	56	57	59	57	58	57	54
AZ.	ARIZONA	33	34	34	37	35	41	47	50	54	58
AR.	ARKANSAS	33	34	38	40	41	41	44	44	44	48
CA.	CALIFORNIA	122	123	117	119	118	120	119	123	121	120
CO.	COLORADO	45	49	48	51	52	56	58	62	62	72
DE.	DELAWARE	16	16	17	18	17	19	19	16	19	19
DC.	DISTRICT OF COLUMBIA	48	50	54	61	63	67	65	64	58	56
FL.	FLORIDA	76	77	78	83	85	84	82	93	90	100
GA.	GEORGIA	62	64	66	86	99	104	103	110	105	120
ID.	IDAHO	19	19	19	20	21	20	21	22	23	23
IL.	ILLINOIS	114	120	123	116	120	125	131	135	137	142
IN.	INDIANA	39	39	40	41	41	40	41	41	40	38
IA.	IOWA	21	21	22	22	25	24	24	24	22	26
KS.	KANSAS	39	41	40	40	40	41	42	47	47	47
KY.	KENTUCKY	45	47	45	47	46	47	46	48	48	49
LA.	LOUISIANA	64	66	66	67	64	65	70	69	72	73
ME.	MAINE	12	12	12	12	12	12	13	13	13	13
MD.	MARYLAND	26	26	28	33	33	32	30	28	29	30
MA.	MASSACHUSETTS	36	36	39	40	40	41	40	41	40	39
MI.	MICHIGAN	39	39	27	38	34	37	41	42	44	42
MN.	MINNESOTA	40	43	41	44	44	50	52	54	53	51
MS.	MISSISSIPPI	43	43	44	42	42	45	43	43	45	43
MO.	MISSOURI	55	58	62	76	75	78	84	84	88	93
MT.	MONTANA	13	15	16	14	14	13	15	14	17	19
NE.	NEBRASKA	21	21	21	20	21	23	24	28	25	26
NV.	NEVADA	21	21	20	20	20	21	21	21	21	21
NH.	NEW HAMPSHIRE	14	14	16	17	17	17	18	18	18	19
NJ.	NEW JERSEY	52	52	53	60	59	58	61	65	59	60
NM.	NEW MEXICO	22	23	22	23	23	22	26	28	29	34
NY.	NEW YORK	89	90	93	96	95	95	91	94	95	108
NC.	NORTH CAROLINA	35	39	41	52	49	53	52	51	50	49
ND.	NORTH DAKOTA	13	14	15	17	17	16	17	18	17	17
OH.	OHIO	53	52	56	54	54	62	59	60	62	60
OK.	OKLAHOMA	39	42	44	44	47	46	48	56	58	59
OR.	OREGON	28	28	27	25	31	33	29	31	30	34
PA.	PENNSYLVANIA	54	62	69	74	67	80	91	99	92	91
RI.	RHODE ISLAND	15	15	16	17	17	17	15	15	15	15
SC.	SOUTH CAROLINA	32	32	36	38	34	35	34	34	34	31
SD.	SOUTH DAKOTA	18	18	18	18	20	20	23	25	24	24
TN.	TENNESSEE	65	68	67	71	72	74	75	77	75	73
TX.	TEXAS	134	134	135	143	152	153	160	158	162	165
UT.	UTAH	27	28	29	29	28	29	29	28	30	31
VT.	VERMONT	14	14	13	13	13	13	13	13	12	12
VA.	VIRGINIA	30	27	28	34	34	34	37	36	31	32
WA.	WASHINGTON	43	47	48	48	49	51	52	51	51	51
WV.	WEST VIRGINIA	18	20	22	24	24	23	20	21	20	19
WI.	WISCONSIN	46	49	49	44	46	49	50	51	51	50
WY.	WYOMING	16	15	13	15	17	17	18	17	17	18
	UNDUP TOTAL				475			494	519	506	516

TABLE 2--TOTAL FIRMS PURCHASING SWITCHED ACCESS IN SELECTED AREAS SERVED BY BELL OPERATING COMPANIES: 1985

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Ameritech												
Illinois	63	68	68	74	74	73	77	78	92	94	98	103
Indiana	28	30	30	30	26	32	29	32	29	28	26	32
Michigan	28	28	32	32	33	38	38	36	39	43	43	43
Ohio	27	33	38	44	47	50	48	47	54	53	54	56
Wisconsin	28	30	32	33	33	34	35	35	35	41	43	44
Pacific Telesis												
California	72	85	90	95	95	101	107	111	119	121	125	121
Nevada	13	13	14	17	16	20	20	20	20	20	20	20
Southwestern												
Arkansas	34	34	32	31	33	32	31	30	30	32	32	31
Kansas	29	30	34	29	29	31	32	34	33	34	36	37
Missouri	26	28	29	31	34	47	47	49	50	49	54	55
Oklahoma	21	23	24	29	34	38	39	36	35	39	40	40
Texas	52	58	77	95	98	109	112	120	119	123	124	127

TABLE 3--TOTAL FIRMS PURCHASING EQUAL ACCESS
FROM BELL OPERATING COMPANIES: 1986

STATE CODE	STATE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
AL.	ALABAMA	12	12	12	12	12	12	12	12	13	13
AZ.	ARIZONA	14	15	17	17	14	17	17	17	16	18
AR.	ARKANSAS	6	6	6	6	6	6	6	6	6	6
CA.	CALIFORNIA	22	22	22	23	22	22	23	23	22	23
CO.	COLORADO	15	17	19	18	18	18	18	19	19	19
DE.	DELAWARE	8	7	7	7	5	5	5	4	4	4
DC.	DISTRICT OF COLUMBIA	12	13	13	13	12	12	12	12	12	13
FL.	FLORIDA	18	18	19	19	20	21	19	20	20	20
GA.	GEORGIA	12	15	15	14	14	14	13	14	13	15
ID.	IDAHO	5	5	6	6	6	7	7	7	7	7
IL.	ILLINOIS	17	17	17	17	17	17	17	19	19	19
IN.	INDIANA	13	14	14	14	14	14	14	14	15	15
IA.	IOWA	7	8	8	8	9	9	9	9	9	8
KS.	KANSAS	12	12	11	12	12	12	13	13	13	14
KY.	KENTUCKY	10	10	10	10	10	10	10	10	10	10
LA.	LOUISIANA	19	19	19	19	19	20	20	20	20	20
ME.	MAINE	3	3	3	4	4	3	3	3	3	3
MD.	MARYLAND	10	10	10	10	10	10	10	10	10	11
MA.	MASSACHUSETTS	10	10	10	10	10	10	10	10	10	10
MI.	MICHIGAN	11	11	11	12	12	13	13	14	13	13
MN.	MINNESOTA	12	12	12	12	12	12	12	13	12	12
MS.	MISSISSIPPI	6	6	6	6	6	6	5	6	6	6
MO.	MISSOURI	18	18	16	17	17	17	18	19	19	18
MT.	MONTANA	2	2	2	2	3	2	3	2	6	6
NE.	NEBRASKA	11	11	11	11	11	11	11	11	11	10
NV.	NEVADA	7	7	7	7	7	7	7	7	7	7
NH.	NEW HAMPSHIRE	4	4	4	4	4	4	3	3	3	3
NJ.	NEW JERSEY	14	15	15	16	16	16	17	18	20	20
NM.	NEW MEXICO	4	4	4	4	4	4	5	5	4	4
NY.	NEW YORK	19	18	21	21	21	21	19	20	19	21
NC.	NORTH CAROLINA	11	12	12	12	12	12	12	12	12	12
ND.	NORTH DAKOTA	*	*	*	*	*	2	2	3	4	6
OH.	OHIO	13	12	13	13	13	13	13	13	14	14
OK.	OKLAHOMA	10	11	11	11	12	12	12	12	12	12
OR.	OREGON	5	6	7	7	12	12	9	10	5	7
PA.	PENNSYLVANIA	15	16	16	17	14	17	19	19	17	17
RI.	RHODE ISLAND	7	7	7	8	8	8	7	7	7	7
SC.	SOUTH CAROLINA	7	7	7	7	6	6	7	7	7	7
SD.	SOUTH DAKOTA	*	*	*	*	*	*	1	4	4	4
TN.	TENNESSEE	14	14	14	14	14	14	14	14	14	14
TX.	TEXAS	38	41	41	44	44	45	45	47	50	50
UT.	UTAH	8	8	9	10	10	10	10	10	10	10
VT.	VERMONT	3	3	2	2	2	2	2	2	3	3
VA.	VIRGINIA	8	8	8	8	9	9	9	9	9	9
WA.	WASHINGTON	11	15	17	17	17	17	19	21	18	18
WV.	WEST VIRGINIA	6	7	7	7	7	7	7	7	6	6
WI.	WISCONSIN	19	20	20	20	21	21	22	23	24	23
WY.	WYOMING	4	4	4	4	4	4	4	4	4	4
	UNDUP TOTAL	157	166	169	175	178	183	183	193	190	200

*Equal access was not yet available within this state during this month.

TABLE 4---TOTAL FIRMS PURCHASING EQUAL ACCESS IN SELECTED AREAS SERVED BY BELL OPERATING COMPANIES: 1985

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Ameritech												
Illinois	11	12	12	12	13	12	13	15	14	14	13	16
Indiana	9	10	11	12	12	11	12	12	12	12	13	12
Michigan	7	7	8	7	9	9	9	10	9	11	11	12
Ohio	6	8	7	10	11	11	12	14	13	13	13	13
Wisconsin	8	9	11	13	13	13	13	13	13	15	17	17
Pacific Telesis												
California	13	16	16	17	17	19	19	18	18	17	20	21
Nevada	5	5	5	5	5	5	5	5	5	5	5	5
Southwestern												
Arkansas	0	4	5	5	5	6	5	5	5	6	5	5
Kansas	1	4	9	9	10	10	11	11	11	11	11	11
Missouri	0	1	5	7	8	15	18	18	19	18	18	18
Oklahoma	0	2	7	7	8	8	9	8	9	9	9	10
Texas	9	9	13	20	23	27	29	31	33	34	35	38

TABLE 5--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	No. States
Access Long Distance	1
Action Telecommunications Co.	1
Advanced Business Telephone	2
Advanced Mkg. Svcs., dba Dial Anywhere	1
Allnet Communications Services, Inc.	28
AmeriCall LDC, Inc.	1
AmeriCall Systems of Louisville	2
American Communications	1
American Communications Inc.	1
American Express Expressphone	6
American Network, Inc.	2
American Ptt	1
American Sharecom, Inc.	4
American Telco, Inc.	1
American Telesave	1
American Telephone Exchange	4
Ameriphone	1
AMTEL Systems, Inc.	1
ARGO Communications Corp.	1
ATS Communications	1
ATX, Inc.	1
AT&T Communications	48
A.C. Teleconnect dba Alternative Commun.	1
Biz Tel Long Distance Telephone co.	1
Business Telcom Intl	1
Call America	1
Call USA	1
Call U.S.	2
Cellular Telephone Co.	1
Clark Telecommunications Inc.	2
ClayDesta Communications	1
Coastal Telephone Company	1
Com Systems Network Services	2
Comal Communications, Inc.	1
Comex-Chinamerica Communications	1
Communications Cable Laying Co., Inc.	1
Communications Equipment Corporation	1
Communigroup of N Alabama	2
Comnet, Inc.	2
Compute-A-Call, Inc.	3
Comp-Data Communications	1
Comtel of New Orleans	1
Comtel of Pine Bluff	1
Com-Link 21	2
CP National	1
Cypress Telecommunications Corp. (Cytel)	1
Dash Long Distance Service, Inc.	1
Delta Communications, Inc.	1
Dial Net, Inc.	1
Direct Comm Inc.	1
Direct Line of Springfield	1
Discount Long Distance	1
Eastern Telephone Systems, Inc.	2
Econ-A-Call	2
Econo-Line Midland	1
Econo-Line WACO	1
Electronic Office Centers of America	2
ED/Tech	1
Escondido Telephone Company	1
Execuline Inc.	1
Execulines of Florida, Inc.	1
First Phone Corp.	1
Florida Digital Network	1
Garden State Long Distance Telephone	1
General Communications Inc.	1
GTE Sprint Communications	46
Houston Network, Inc.	1
Intelco	1
Inteleplex Corporation	1

TABLE 5--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	No. States
Internet Telecommunications Ser., Inc.	1
LDS of Alexandria	1
LDS of Baton Rouge	1
LDS of Monroe	1
LDS of Shreveport	2
LDS of Tulsa	1
LDX, Inc./Lexitel	2
Lexitel Comm.(Max Long Distance)	7
LIGHTCALL Corporation	5
Litel Telecommunications Corporation	1
Long Distance Management	1
Long Distance Savers	2
Long Distance Service of Washington	1
Long Distance Service(LDS), Inc.	1
Long Distance for Less	1
Long Distance Telephone Savers	1
LTS, Inc.	1
Manitowoc Long Distance Service	1
Marinette-Menominee LDS	1
MCI International	1
MCI Telecommunications Corporation	47
Mercury Long Distance	1
Metro America Communications Inc.	2
Metromedia Long Distance	3
Micronet Long Distance Communications	1
Microtel Inc.	1
MidAmerica Long Distance Company	3
Mid Atlantic Telecommunications Corp	2
M-K Technologies, Inc.	1
Nacogdoches Telecommunications	1
National Telecom of Austin	1
National Telephone Exchange	1
NC Corp. (Pace) Tel & Data Comm.	1
Network Telecomm	1
Northland Telephone Systems, Ltd.	1
Northwest Telecomm	1
NTS Communications	1
NTT, Inc.	1
Olympia Telecom	1
Onecall Communications, Inc.	1
Paramount Management Associates	1
Peninsula LDS	1
Pennsylvania Alternative Communication	1
Phone America of Carolina	1
Rainbow Communications, Inc.	1
RCI Corporation	4
Republic Telcom	8
Satelco	1
Satellite Business Systems	28
SaveNet, Inc.	3
Schneider Communications	1
Sears Communications Company	1
Sheboygan LDS	1
SouthernNet, Inc.	7
Southland Systems	2
Southwest Communications	1
Standard Information Services, Inc.	1
Star Tel of Abilene	1
Star Tel of Victoria	1
Starnet Corporation	2
Sun Dial Communications	1
T S Communications	1
Taconic Long Distance Service, Corp.	1
TDX Systems, Inc.	12
Telamarketing Comm of America	1
Telamarketing Comm of Arkansas	1
Telamarketing Comm of Baton Rouge	1
Telamarketing Comm of Birmingham	1
Telamarketing Comm of Colorado Springs	1
Telamarketing Comm of El Paso	1

TABLE 5--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	No. States
Telamarketing Comm of Lafayette	1
Telamarketing Comm of Louisville	1
Telamarketing Comm of Memphis	1
Telamarketing Comm of Miami	1
Telamarketing Comm of Milwaukee	1
Telamarketing Comm of Mobile	1
Telamarketing Comm of Monterey	1
Telamarketing Comm of Montgomery	1
Telamarketing Comm of New Orleans	1
Telamarketing Comm of Oklahoma	1
Telamarketing Comm of Piedmont	1
Telamarketing Comm of San Diego	1
Telamarketing Comm of So East Florida	1
Telamarketing Comm of the Tri-States	1
Telamarketing Comm of Tulsa	1
Telamarketing Comm of Washington, D.C.	1
Telamarketing Communications, Inc.	5
Telecommunication Services Corporation	1
Telecommunications Systems Inc.	4
Teleconnect	5
TeleDial America	1
Telephone Assoc. Long Distance Services	1
Telephone Comm. Corp.	1
Telesavers	1
Telesphere Network, Inc.	6
Tele-Sys, Inc	1
Teltec Saving Communications Company	1
Tel-America, Inc.	4
Tel-Share	4
Tel/Man Inc.	2
Tenex Communications Corporation	2
Texustel, Inc.	1
The CommuniGroup	3
ThriftyCall (Lintel Systems)	1
TK Communications Inc.	2
Total Tel USA Inc.	1
Touch & Save of Helena	1
Touch & Save of Nashville	1
Transamerica Telecommunications, Inc.	1
Transcall America Inc.	8
Tri-J	2
TriCom	1
TTI Midland-Odessa	1
Tyler Telcom	1
United States Transmission Systems, Inc.	35
U.S. Telecom, Inc.	27
Valley Startel	1
Valu-Line of Amarillo	1
Valu-Line of Brenham	1
Valu-Line of New Braunfels	1
Valu-Line of St. Joseph	1
Valu-Line of Tri Cities	1
Valu-Line of West Texas	1
Valu-Line of Wichita Falls	1
Virtual Network Services Corp.	3
WesTel, Inc.	1
Western Union Telegraph Company	28
Wisconsin Telecommunications Technology	1
Wylon	1
X-L Communications, Inc.	1
Yavapai Telephone Exchange	1

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	AL	AZ	AR	CA	CO	DE	DC	FL	GA	ID	IL	IN	IA	KS	KY	LA	ME	MD	MA	MI	MN	MS	MO	MT	NE	NV	NH	NJ	NM	NY
Access Long Distance																														
Action Telecommunications Co.																														
Advanced Business Telephone																					1									
Advanced Mkg. Svcs., dba Dial Anywhere																														
Allnet Communications Services, Inc.	1	1		1	1		1	1	1		1	1		1	1	1		1	1		1		1			1		1		1
AmeriCall LDC, Inc.								1																						
AmeriCall Systems of Louisville												1			1															
American Communications				1																										
American Communications Inc.														1																
American Express Expressphone		1			1																		1				1			
American Network, Inc.					1																									
American Ptt				1																										
American Sharecom, Inc.																					1		1							
American Telco, Inc.																														
American Telesave																														
American Telephone Exchange				1						1																1				
Ameriphone																														
AMTEL Systems, Inc.																														
ARGO Communications Corp.																														1
ATS Communications		1																												
ATX, Inc.																														
AT&T Communications	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
A.C. Teleconnect dba Alternative Commun.																														1
Biz Tel Long Distance Telephone co.								1																						
Business Telcom Intl																														
Call America		1																												
Call USA																														1
Call U.S.																														
Cellular Telephone Co.																												1		
Clark Telecommunications Inc.												1								1										
ClayDesta Communications																														
Coastal Telephone Company																														
Com Systems Network Services		1		1																										
Comal Communications, Inc.																														
Comex-Chinaamerica Communications				1																										
Communications Cable Laying Co., Inc.																							1							
Communications Equipment Corporation																														
Communigroup of N Alabama	1																					1								
Comnet, Inc.																														
Compute-A-Call, Inc.			1											1									1							
Comp-Data Communications																														
Comtel of New Orleans																1														
Comtel of Pine Bluff			1																											
Con-Link 21																							1							
CF National				1																										
Cypress Telecommunications Corp. (Cytel)																														
Dash Long Distance Service, Inc.																														
Delta Communications, Inc.	1																													
Dial Net, Inc.																														
Direct Comm Inc.																1														
Direct Line of Springfield																							1							
Discount Long Distance																1														
Eastern Telephone Systems, Inc.																												1		
Econ-A-Call														1		1														
Econo-Line Midland																														
Econo-Line WACO																														
Electronic Office Centers of America																														
EO/Tech											1																			
Escondido Telephone Company				1																										
Execuline Inc.																														
Executines of Florida, Inc.								1																						
First Phone Corp.																			1											
Florida Digital Network								1																						
Garden State Long Distance Telephone																												1		
General Communications Inc.																														
GTE Sprint Communications	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1
Houston Network, Inc.																														
Intelco					1																									
Inteleplex Corporation																												1		
Internet Telecommunications Ser., Inc.																														
LDS of Alexandria																1														
LDS of Baton Rouge																1														
LDS of Monroe																1														
LDS of Shreveport																1														
LDS of Tulsa																														

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	AL	AZ	AR	CA	CO	DE	DC	FL	GA	ID	IL	IN	IA	KS	KY	LA	ME	MD	MA	MI	MN	MS	MO	MT	NE	NV	NH	NJ	NM-NY
LDI, Inc./Lexitel																1													
Lexitel Coan.(Nat Long Distance)					1						1	1								1									
LIGHTCALL Corporation											1	1								1									
Litel Telecommunications Corporation															1														
Long Distance Management																													
Long Distance Savers																1													
Long Distance Service of Washington								1																					
Long Distance Service(LDS), Inc.																						1							
Long Distance for Less		1																											
Long Distance Telephone Savers																													
LTS, Inc.																													
Manitowoc Long Distance Service																							1						
Marinette-Menominee LDS																													
MCI International									1																				
MCI Telecommunications Corporation	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Mercury Long Distance																1													
Metro America Communications Inc.									1	1																			
Metromedia Long Distance									1																				
Micromet Long Distance Communications																											1	1	
Microtel Inc.									1											1									
MidAmerica Long Distance Company												1									1			1					
Mid Atlantic Telecommunications Corp							1												1										
M-K Technologies, Inc.										1																			
Nacogdoches Telecommunications																													
National Telecom of Austin																													
National Telephone Exchange																													
NC Corp. (Pace) Tel & Data Coan.																													
Network Telecom					1																								1
Northland Telephone Systems, Ltd.																													
Northwest Telecom					1																								1
NTS Communications																													
NTT, Inc.																													
Olympia Telecom																													
Onecall Communications, Inc.												1																	
Paramount Management Associates											1																		
Peninsula LDS																													
Pennsylvania Alternative Communication																													
Phone America of Carolina																													
Rainbow Communications, Inc.		1																											
RCI Corporation																													
Republic Telcom		1			1						1		1								1	1					1	1	
Satelco																													
Satellite Business Systems	1		1		1	1	1	1			1	1			1	1		1	1	1			1	1			1	1	
SaveNet, Inc.			1	1																									
Schneider Communications																													
Sears Communications Company																													
Shuboygan LDS																													
SouthernNet, Inc.	1						1	1																					
Southland Systems	1							1																					
Southwest Communications																													
Standard Information Services, Inc.			1																										
Star Tel of Abilene																													
Star Tel of Victoria																													
Starnet Corporation			1																										
Sun Dial Communications	1																			1									
T S Communications																													
Taconic Long Distance Service, Corp.										1																			
TBI Systems, Inc.			1		1	1		1		1							1	1											1
Telemarketing Coan of America																											1	1	
Telemarketing Coan of Arkansas		1																											
Telemarketing Coan of Baton Rouge																1													
Telemarketing Coan of Birmingham	1																												
Telemarketing Coan of Colorado Springs					1																								
Telemarketing Coan of El Paso																													
Telemarketing Coan of Lafayette																1													
Telemarketing Coan of Louisville																													
Telemarketing Coan of Memphis																													
Telemarketing Coan of Miami																													
Telemarketing Coan of Milwaukee																													
Telemarketing Coan of Mobile	1																												
Telemarketing Coan of Monterey			1																										
Telemarketing Coan of Montgomery	1																												
Telemarketing Coan of New Orleans																													
Telemarketing Coan of Oklahoma																1													
Telemarketing Coan of Piedmont																													

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	AL	AZ	AR	CA	CO	DE	DC	FL	GA	ID	IL	IN	IA	KS	KY	LA	ME	MD	MA	MI	MN	MS	MO	MT	NE	NV	NH	NJ	NM	NY
Telemarketing Corp of San Diego				1																										
Telemarketing Corp of So East Florida								1																						
Telemarketing Corp of the Tri-States																														
Telemarketing Corp of Tulsa																														
Telemarketing Corp of Washington, D.C.							1																							
Telemarketing Communications, Inc.											1	1																		1
Telecommunication Services Corporation																														
Telecommunications Systems Inc.									1																			1		
Teleconnect											1		1	1										1		1				
TeleDial America																				1										
Telephone Assoc. Long Distance Services																														
Telephone Corp. Corp.					1																									
Telesavers																														1
Telesphere Network, Inc.				1					1		1																	1		1
Tele-Sys, Inc																														
Teltec Saving Communications Company								1																						
Tel-America, Inc.				1	1					1																				
Tel-Share		1			1								1													1				
Tel/Man Inc.																														
Tenex Communications Corporation																												1		1
Texustel, Inc.																														
The CommuniGroup														1									1	1						
ThriftyCall (Lintel Systems)																										1				
TK Communications Inc.																		1										1		
Total Tel USA Inc.																												1		
Touch & Save of Helena																									1					
Touch & Save of Nashville																														
Transamerica Telecommunications, Inc.																														
Transcall America Inc.	1							1	1				1										1							
Tri-J											1																			
TriCom																														
TTI Midland-Odessa																														
Tyler Telcom																														
United States Transmission Systems, Inc.	1	1		1	1			1	1	1	1	1	1	1	1		1	1	1	1			1		1	1		1		1
U.S. Telecom, Inc.		1		1	1			1	1	1	1	1					1	1	1	1			1		1			1		1
Valley Startel																														
Valu-Line of Amarillo																														
Valu-Line of Brenham																														
Valu-Line of New Braunfels																														
Valu-Line of St. Joseph																							1							
Valu-Line of Tri Cities																														
Valu-Line of West Texas																														
Valu-Line of Wichita Falls																														
Virtual Network Services Corp.											1	1																		
WesTel, Inc.																														
Western Union Telegraph Company	1			1	1			1	1		1	1		1	1		1	1	1	1			1		1	1		1		1
Wisconsin Telecommunications Technology																														
Wylon																														
X-L Communications, Inc.																														
Yavapai Telephone Exchange		1																												

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	NC	ND	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY
Access Long Distance												1						
Action Telecommunications Co.											1							
Advanced Business Telephone		1																
Advanced Mkg. Svcs., dba Dial Anywhere			1															
Allnet Communications Services, Inc.			1	1	1	1				1	1	1			1		1	
AmeriCall LDC, Inc.																		
AmeriCall Systems of Louisville																		
American Communications																		
American Communications Inc.																		
American Express Expressphone												1			1			
American Network, Inc.															1			
American Ptt																		
American Sharecom, Inc.															1		1	
American Telco, Inc.											1							
American Telesave					1													
American Telephone Exchange															1			
Ameriphone											1							
AMTEL Systems, Inc.											1							
ARGO Communications Corp.																		
ATS Communications																		
ATX, Inc.						1												
AT&T Communications	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	•1
A.C. Teleconnect dba Alternative Commun.																		
Biz Tel Long Distance Telephone co.																		
Business Telcom Intl	1																	
Call America																		
Call USA																		
Call U.S.										1					1			
Cellular Telephone Co.																		
Clark Telecommunications Inc.																		
ClayDesta Communications											1							
Coastal Telephone Company											1							
Com Systems Network Services																		
Comal Communications, Inc.											1							
Comex-Chinamerica Communications																		
Communications Cable Laying Co., Inc.																		
Communications Equipment Corporation																	1	
Communigroup of N Alabama																		
Comnet, Inc.					1										1			
Compute-A-Call, Inc.																		
Comp-Data Communications											1							
Comtel of New Orleans																		
Comtel of Pine Bluff																		
Com-Link 21										1								
CP National																		
Cypress Telecommunications Corp. (Cytel)											1							
Dash Long Distance Service, Inc.											1							
Delta Communications, Inc.																		
Dial Net, Inc.									1									
Direct Comm Inc.																		
Direct Line of Springfield																		
Discount Long Distance																		
Eastern Telephone Systems, Inc.						1												
Econ-A-Call																		
Econo-Line Midland											1							

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	NC	ND	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY
Econo-Line WACO											1							
Electronic Office Centers of America						1					1							
EO/Tech																		
Escondido Telephone Company																		
Execuline Inc.															1			
Executines of Florida, Inc.																		
First Phone Corp.																		
Florida Digital Network																		
Garden State Long Distance Telephone																		
General Communications Inc.															1			
GTE Sprint Communications	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Houston Network, Inc.											1							
Intelco																		
Inteleplex Corporation																		
Internet Telecommunications Ser., Inc.					1													
LDS of Alexandria																		
LDS of Baton Rouge																		
LDS of Monroe																		
LDS of Shreveport											1							
LDS of Tulsa				1														
LDI, Inc./Lexitel											1							
Lexitel Comm.(Max Long Distance)			1			1											1	
LIGHTCALL Corporation			1			1												
Litel Telecommunications Corporation			1															
Long Distance Management																		
Long Distance Savers				1														
Long Distance Service of Washington																		
Long Distance Service(LDS), Inc.											1							
Long Distance for Less																		
Long Distance Telephone Savers															1			
LTS, Inc.																		
Manitowoc Long Distance Service																	1	
Marinette-Menominee LDS																	1	
MCI International																		
MCI Telecommunications Corporation	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1
Mercury Long Distance																		
Metro America Communications Inc.																		
Metromedia Long Distance																		
Micronet Long Distance Communications																		
Microtel Inc.																		
MidAmerica Long Distance Company																		
Mid Atlantic Telecommunications Corp																		
M-K Technologies, Inc.																		
Nacogdoches Telecommunications											1							
National Telecom of Austin											1							
National Telephone Exchange											1							
NC Corp. (Pace) Tel & Data Comm.																		
Network Telecom																		
Northland Telephone Systems, Ltd.																		
Northwest Telecom																		
NTS Communications											1							
NTT, Inc.																	1	
Olympia Telecom											1							
Onecall Communications, Inc.																		
Paramount Management Associates																		

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	NC	ND	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY
Peninsula LDS																	1	
Pennsylvania Alternative Communication						1												
Phone America of Carolina	1																	
Rainbow Communications, Inc.																		
RCI Corporation			1			1												
Republic Telcom		1																
Satelco											1						1	
Satellite Business Systems		1	1			1	1				1	1		1	1	1	1	
SaveNet, Inc.															1			
Schneider Communications																	1	
Sears Communications Company															1			
Sheboygan LDS																	1	
SouthernNet, Inc.	1							1		1				1				
Southland Systems																		
Southwest Communications											1							
Standard Information Services, Inc.																		
Star Tel of Abilene											1							
Star Tel of Victoria											1							
Starnet Corporation																		
Sun Dial Communications																		
T S Communications																		
Taconic Long Distance Service, Corp.																		
TDX Systems, Inc.						1					1			1				
Telamarketing Corp of America											1							
Telamarketing Corp of Arkansas																		
Telamarketing Corp of Baton Rouge																		
Telamarketing Corp of Birmingham																		
Telamarketing Corp of Colorado Springs																		
Telamarketing Corp of El Paso											1							
Telamarketing Corp of Lafayette																		
Telamarketing Corp of Louisville																		
Telamarketing Corp of Memphis										1								
Telamarketing Corp of Miami																		
Telamarketing Corp of Milwaukee																	1	
Telamarketing Corp of Mobile																		
Telamarketing Corp of Monterey																		
Telamarketing Corp of Montgomery																		
Telamarketing Corp of New Orleans																		
Telamarketing Corp of Oklahoma			1															
Telamarketing Corp of Piedmont	1																	
Telamarketing Corp of San Diego																		
Telamarketing Corp of So East Florida																		
Telamarketing Corp of the Tri-States										1								
Telamarketing Corp of Tulsa			1															
Telamarketing Corp of Washington, D.C.																		
Telamarketing Communications, Inc.						1									1			
Telecommunication Services Corporation																	1	
Telecommunications Systems Inc.	1						1											
Teleconnect																		
TeleDial America																		
Telephone Assoc. Long Distance Services																	1	
Telephone Corp. Corp.																		
Telesavers																		
Telesphere Network, Inc.					1													
Tele-Sys, Inc									1									

TABLE 6--LIST OF CARRIERS PURCHASING EQUAL ACCESS--OCTOBER 1986

Company	NC	ND	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY
Teltec Saving Communications Company																		
Tel-America, Inc.												1						
Tel-Share																		
Tel/Man Inc.	1							1										
Tenex Communications Corporation																		
Texustel, Inc.											1							
The CommuniGroup																		
ThriftyCall (Lintel Systems)																		
TK Communications Inc.																		
Total Tel USA Inc.																		
Touch & Save of Helena																		
Touch & Save of Nashville									1									
Transamerica Telecommunications, Inc.											1							
Transcall America Inc.				1						1	1							
Tri-J			1															
TriCom															1			
TTI Midland-Odessa											1							
Tyler Telcom											1							
United States Transmission Systems, Inc.	1		1	1	1	1	1	1		1	1	1		1	1		1	
U.S. Telecom, Inc.	1		1	1		1				1	1	1		1			1	
Valley Startel											1							
Valu-Line of Amarillo											1							
Valu-Line of Brenham											1							
Valu-Line of New Braunfels											1							
Valu-Line of St. Joseph																		
Valu-Line of Tri Cities											1							
Valu-Line of West Texas											1							
Valu-Line of Wichita Falls											1							
Virtual Network Services Corp.																	1	
WesTel, Inc.											1							
Western Union Telegraph Company	1		1	1		1	1				1			1			1	
Wisconsin Telecommunications Technology																	1	
Wylon																		1
X-L Communications, Inc.															1			
Yavapai Telephone Exchange																		

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
7-TEL INC
A C T INC
ABERDEEN LTD PARTNERS
AC TELECONNECT DBA ALTERNATIVE COMMUN.
ACCESS LONG DISTANCE
ACTION TELECOMMUNICATIONS CO.
ADVANCE COMM. SOFTWARE
ADVANCE MKG. SVCS., DBA DIAL ANYWHERE
ADVANCED BUSINESS TELEPHONE
AEROFONE
ALBUQUERQUE TELCOM SYS INC
ALLNET COMMUNICATION SERVICES, INC.
ALLTELCO
ALL-STATE COMMUNICATION
ALTCOM
ALTERNATIVE COMMUNICATIONS CORP DBA A.C. TELECONNECT
AMERICAL COMMUNICATIONS NET
AMERICAL INC.
AMERICALL CORPORATION
AMERICALL SYSTEMS OF LOUISVILLE
AMERICAN COMMUNICATION
AMERICAN COMMUNICATIONS
AMERICAN COMMUNICATIONS
AMERICAN EXPRESS EXPRESSPHONE
AMERICAN INTERNATIONAL TELEPHONE
AMERICAN LDC, INC.
AMERICAN NETWORK, INC.
AMERICAN PRIVATE LINE
AMERICAN PTT
AMERICAN SATELLITE CORP.
AMERICAN SHARECOM, INC.
AMERICAN TELCO, INC.
AMERICAN TELEPHONE EXCHANGE INC.
AMERICAN TELESAVE
AMERICAN TELESYSTEMS INC.
AMERIPHONE
AMERTEL
AMER-TELECOMMUNICATIONS
AMP ELECTRIC INC.
AMPTELCO CORP.
AMTEL CORP
AMTEL SYSTEM
ARGO COMMUNICATIONS CORP.
ASHLAND CALL AMERICA
AT COMMUNICATIONS
ATC COM
ATS COMMUNICATIONS
AT&T COMMUNICATIONS, INC.
AUBURN TELECOM LTD.
AUTOMATED COMMUNICATIONS INC.
BAY COMMUNICATIONS
BAY TELECOM
BEMIDJI LDS
BIZ TELEPHONE LONG DISTANCE
BTI INC
BUDGET TELEPHONE
BURLINGTON TELEPHONE CO.
BUSINESS TELECOMMUNICATIONS CORPORATION
BUSINESS TELECOM, INC.
CALL AMERICA
CALL AMERICA
CALL AMERICA OF MONTANA
CALL AMERICA OF PALM DESERT
CALL AMERICA OF RIVERSIDE

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
CALL SAVERS TELEMAX
CALL US INC.
CALL US OF KENTUCKY
CALL USA
CALL U.S.A., INC.
CAMNET
CAPITAL TELECOMMUNICATIONS
CAPITAL TELECOMMUNICATIONS INC.
CAPITAL TELECOMMUNICATIONS OF MD., INC. CORP.
CELLULAR TELEPHONE CO
CELUTEL INC
CENTEL CORP
CENTRAL N.Y. TALK TRANSIT
CENTRAL TELEPHONE SYSTEMS
CENTURY AREA LONG LINES
CHADWICK VALUE-LINE
CHARTER CORPORATION-DBA-TRI-J
CHAUTAUQUA COMMUNICATIONS, INC.
CHERNOW COMMUNICATIONS, INC.
CHOICE COMMUNICATIONS INC.
CINCINNATI BELL LONG DISTANCE, INC.
CLARK TELECOMMUNICATIONS, INC.
CLAYDESTA DIGITAL CORP
COACHELLA VALLEY COMM
COASTAL TELEPHONE CO.
COM SYSTEMS NETWORK SERVICES
COM TEL OF NEW ORLEANS
COMAL COMMUNICATIONS
COMBINED NETWORK, INC.
COMEX
COMMONWEALTH OF PENNSYLVANIA
COMMUNICATIONS CABLE-LAYING
COMMUNICATIONS EQUIPMENT CORP.
COMMUNICATIONS MKTG.
COMMUNICATIONS SYSTEM NETWORK SERVICES
COMM. CORP. OF AMERICA
COMNET INC.
COMPUTEL
COMPUTE-A-CALL
COMPU-TEL INC.
COMP-DATA COMMUNICATIONS
COMSAT GENERAL CORP
COMTEL HOT SPRINGS
COMTEL INDUSTRIES
COMTEL OF ARKANSAS
COMTEL OF PINE BLUFF
COMTEL SYSTEMS
COMTEL SYSTEMS OF BILLINGS
COMTEL SYSTEMS OF NORTHWEST
COMTEL SYSTEMS OF TULSA
COMVEST LONG LINES OF BAKERSFIELD
COMVEST LONG LINES OF FRESNO
COMVEST LONG LINES OF MODESTO
COMVEST LONG LINES OF SACRAMENTO
COMVEST LONG LINES OF VISALIA
COM-LINK 21
COM-TEL OF HOUSTON
CONROE COMTEL, INC
CONSORTIUM COMMUNICATIONS INC.
CONTACT AMERICA
CP NATIONAL NETWORK SERVICES
CYTEL
DAMA TELECOMMUNICATIONS CORP.
DAMACOM

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
DASH LONG DISTANCE SERVICE
DATEL COMMUNICATION SYSTEMS
DELTA COMMUNICATIONS INC
DIAL AMERICA, INC.
DIAL NET INC.
DIGI-NET
DIRECT COMMUNICATIONS INC
DIRECT DIAL, DIVISION OF TRANSCALL
DIRECT LINE AUSTIN
DIRECT LINE HASP INC.
DIRECT LINE OF OKLAHOMA
DIRECT LINE OF SPRINGFIELD
DIRECT LINE OTELCO
DIRECTLINE DIV TRANSCALL
DISCOUNT COMMUNICATIONS
DISCOUNT LONG DISTANCE
DUNSET
E AND K SYSTEMS
EASTERN TELEPHONE SYSTEMS, INC.
ECONO CALL OF LAS CRUCES
ECONOCALL INC
ECONOCALL INC (BILOxI)
ECONOCALL OF TEHACHAPI
ECONOWATS
ECONO-CALL
ECONO-LINE MIDLAND
ECONO-LINE OF WACO
ECON-A-CALL
ECON-O-DIAL OF BISHOP
ECON-O-DIAL OF RIDGECREST
ELECTRONIC DATA SYSTEMS CORP.
ELECTRONIC OFFICE CENTERS OF AMERICA
END USERS
ESCONDIDO TELCO
EXECULINE INC.
EXECULINE OF RENO
EXECULINE OF SAN FRANCISCO
EXECULINES INC.
EXECULINES OF FLORIDA
EXECULINES-FUTUREX
FEDERAL EXPRESS CORP
FEDERAL GOVT
FERGUS FALLS LDS
FIRST DATA RESOURCES, INC.
FIRST PHONE CORPORATION
FLORIDA DIGITAL NETWORK
FONES-WEST
GARDEN STATE LONG DISTANCE TELEPHONE
GAYSHEN CORP.
GEM STATE
GEN COM
GENERAL COMMUNICATIONS INC.
GLENS FALLLS COMMUNICATION CORP.
GTE SATELLITE CORPORATION
GTE SPRINT COMMUNICATIONS CORP.
GTE TELENET COMMUNICATIONS CORP.
GULF COAST LONG DISTANCE
HAL-RAD
HAR-RELL TELECOM, INC
HOUSTON NETWORK INC.
HUGHES COMMUNICATIONS INC.
INDEPENDENT TELEPHONE CO INC
INTELCO

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
INTER TEL
INTERCALL INC
INTERNET TELECOM
INTERSTATE TELEPHONE
INTER-COMM TELEPHONE
INTL BUSINESS MACHINES
ISACOMM, INC.
JARVIS COMMUNICATIONS
JEFFERSON ST. COMM.
KERN COUNTY TELECOM LTD.
KEYSTONE TELECOMM INC
LASSMAN-WEBER
LDB OF ROCHESTER
LDB TELECOMMUNICATIONS CORP.
LDS OF ALEXANDRIA
LDS OF BATON ROUGE
LDS OF MONTOE
LDS OF SHREVEPORT
LDS OF TULSA
LDX NET INC.
LDX TELECOM, INC.
LEHIGH VALLEY TELECOMMUNICATIONS, INC.
LEXITEL COMMUNICATIONS (MAX LONG DISTANCE)
LIBERTY BELL COMMUNICATIONS, INC.
LIGHTCALL CORPORATION
LINTEL SYSTEMS
LITEL TELECOMMUNICATIONS CORPORATION
LONG DISTANCE COMMUNICATION INC.
LONG DISTANCE COMMUNICATION INC.
LONG DISTANCE DISCOUNT INC
LONG DISTANCE DISCOUNT SERVICES
LONG DISTANCE EXCHANGE
LONG DISTANCE FOR LESS
LONG DISTANCE MANAGEMENT
LONG DISTANCE SAVERS INC
LONG DISTANCE SERVICE OF WASHINGTON
LONG DISTANCE SERVICE (LDS), INC.
LONG DISTANCE SYSTEMS
LONG DISTANCE TELEPHONE SAVERS, INC.
LONG DISTANCE/USA, INC.
LONG LINE INC
LTS, INC.
MANITOWOC LOG DISTANCE SVC.
MCI INTERNATIONAL
MCI TELECOMMUNICATIONS CORPORATION
MERCURY LONG DISTANCE
METRO AMERICA COMMUNICATIONS
METROMEDIA LONG DISTANCE
MICRONET LONG DISTANCE
MICROTEL
MID ATLANTIC TELE
MID ATLANTIC TELECOM OF DC
MIDAMERICA LONG DISTANCE COMPANY
MIDCOM TELNET
MIDCO-TEL.
MIDWEST TELEPHONE SERVICE INC
MID-ATLANTIC TELECOM
MID-ATLANTIC TELECOM OF VIRGINIA
MID-CONTINENT COMMUNICATIONS, INC.
MRNT MENOMINEE LDS
MSI TELECOMMUNICATIONS
MTS TAMPA INC
MUTH COMMUNICATIONS
M-K TECHNOLOGIES

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
NACOGDOCHES TELECOMM
NAPA VALLEY TELCOM SERVICES
NATIONAL CASH REGISTER
NATIONAL NETWORK CORP
NATIONAL TELECOM OF AUSTIN
NATIONAL TELEPHONE
NATIONAL TELEPHONE EXCHANGE
NATIONAL TELEPHONE SERVICE
NATIONAL TELE-SERVICE
NC CORP. (PACE) TELEPHONE & DATA COMMUNICATIONS
NCHE TELECOM
NCR TELECOMMUNICATIONS SERVICES INC.
NET COM INC
NETECH COMMUNICATIONS
NETWORK I, INC.
NETWORK PLUS CORP.
NETWORK SERVICES LTD
NETWORK TELECOM INC
NETWORK TELECOMMUNICATIONS
NEW DIMENSION INDUSTRIES
NEW MEXICO TELEPHONE EXCHANGE
NORTH AMERICAN COMMUNICATIONS INC.
NORTH AMERICAN TELEPHONE COMPANY INC.
NORTHLAND TELEPHONE SYSTEMS, LTD
NORTHWEST TELECOMM
NTL DATA CORPORATION
NTS COMMUNICATIONS INC
NTT, INC.
OFFSHORE TELEPHONE CO
OLYMPIA TELECOM
ONE CALL COMMUNICATIONS, INC.
PACE NETWORK
PARAMOUNT MANAGEMENT ASSOC
PASSWORK, INC.
PATHFINDER COMMUNICATIONS
PENINSULA LDS
PENNSYLVANIA ALTERNATION COMMUNICATIONS
PENNY PHONE
PEPSICO
PERSON TO PERSON TELECOMMUNICATIONS
PETRICCA COMMUNICATIONS SYSTEMS
PETROLEUM COMM
PHONE AMERICA INC.
PHONE AMERICA OF CAROLINA
PITTSBURG COMMUNICTION SYSTEM
PLANT TELEPHONE SALES & SERVICE
PREMIER TELE-COMMUNICATIONS, INC.
PROTO-CALL
PSA INC
QUEST MICROWAVE, CORP
RAINBOW COMMUNICATIONS INC.
RA-CO COMMUNICATIONS,INC.
RCA AMERICAN COMMUNICATIONS, INC.
RCA CYLIX COMMUNICATIONS NETWO
RCA GLOBAL COMM. INC.
RCA NETWORK SERVICES, INC.
RCI CORPORATION
RED WING LDS
REPUBLIC TELECOM
RTK TELECOMMUNICATIONS
SAN LUIS OBISPO LTD.
SATELCO INC.
SATELLITE BUSINESS SYSTEMS

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
SATELLITE DATA BROADCASTING
SAVENET
SAVERLINE CORPORATION
SCHNEIDER COMMUNICATIONS INC
SCI COMMUNICATIONS INC
SEARS COMMUNICATIONS CO.
SEARS COMMUNICATIONS NETWORK
SECURITIES INDUSTRY AUTOMATION CORP
SENTENEL CALLING INC.
SHARE LDS SERVICES OF FAIRBAULT
SHARECOM, INC
SHARECOM, INC
SHARED USE NETWORK SERVICE
SHEBOYGAN LDS
SONORA TELECOMM
SOUTH BAY COMMUNICATION
SOUTHERN INTEREXCHANGE SVC INC
SOUTHERNNET, INC.
SOUTHLAND SYSTEMS INC.
SOUTHWEST COMMS
SPENCER LDS
STANDARD INFORMATION
STARNET CORPORATION
STARTEL
STARTEL OF ABILENE
STARTEL OF VICTORIA
SUN DIAL COMMUNICATIONS
SUN TEL COMMUNICATIONS
SUNCOAST COMMUNICATIONS
SWITCH CENTER
T S COMMUNICATIONS
TACONIC LONG DISTANCE SERVICE, CORPORATION
TAHOE TELEPHONE
TCS NETWORK SERVICES
TDX SYSTEMS, INC.
TELAMARKETING COMMUNICATIONS OF AMERICA
TELAMARKETING COMMUNICATIONS OF ARKANSAS
TELAMARKETING COMMUNICATIONS OF ATLANTA
TELAMARKETING COMMUNICATIONS OF BAKERSFIELD
TELAMARKETING COMMUNICATIONS OF BATON ROUGE
TELAMARKETING COMMUNICATIONS OF BIRMINGHAM
TELAMARKETING COMMUNICATIONS OF BOWLING GREEN
TELAMARKETING COMMUNICATIONS OF CHARLESTON W.V.
TELAMARKETING COMMUNICATIONS OF CHARLOTTE
TELAMARKETING COMMUNICATIONS OF CINCINNATI
TELAMARKETING COMMUNICATIONS OF COLORADO SPRINGS
TELAMARKETING COMMUNICATIONS OF COLUMBIA
TELAMARKETING COMMUNICATIONS OF COLUMBUS
TELAMARKETING COMMUNICATIONS OF DAVENPORT
TELAMARKETING COMMUNICATIONS OF EL PASO
TELAMARKETING COMMUNICATIONS OF EVANSVILLE
TELAMARKETING COMMUNICATIONS OF FRESNO
TELAMARKETING COMMUNICATIONS OF GREATER ILLINOIS
TELAMARKETING COMMUNICATIONS OF GREATER PHILADELPHIA
TELAMARKETING COMMUNICATIONS OF INDIANAPOLIS
TELAMARKETING COMMUNICATIONS OF JACKSON
TELAMARKETING COMMUNICATIONS OF JACKSONVILLE
TELAMARKETING COMMUNICATIONS OF KNOXVILLE
TELAMARKETING COMMUNICATIONS OF LAFAYETTE
TELAMARKETING COMMUNICATIONS OF LAS VEGAS
TELAMARKETING COMMUNICATIONS OF LEXINGTON
TELAMARKETING COMMUNICATIONS OF LOUISVILLE
TELAMARKETING COMMUNICATIONS OF MADISON

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
TELAMARKETING COMMUNICATIONS OF MEMPHIS
TELAMARKETING COMMUNICATIONS OF MIAMI
TELAMARKETING COMMUNICATIONS OF MILWAUKEE
TELAMARKETING COMMUNICATIONS OF MOBILE
TELAMARKETING COMMUNICATIONS OF MONTEREY
TELAMARKETING COMMUNICATIONS OF MONTGOMERY
TELAMARKETING COMMUNICATIONS OF NASHVILLE
TELAMARKETING COMMUNICATIONS OF NEW JERSEY
TELAMARKETING COMMUNICATIONS OF NEW ORLEANS
TELAMARKETING COMMUNICATIONS OF NW INDIANA
TELAMARKETING COMMUNICATIONS OF OKLAHOMA
TELAMARKETING COMMUNICATIONS OF OMAHA
TELAMARKETING COMMUNICATIONS OF ORLANDO
TELAMARKETING COMMUNICATIONS OF PEORIA
TELAMARKETING COMMUNICATIONS OF PIEDMONT
TELAMARKETING COMMUNICATIONS OF PROVIDENCE
TELAMARKETING COMMUNICATIONS OF RALEIGH
TELAMARKETING COMMUNICATIONS OF ROANOKE VALLEY
TELAMARKETING COMMUNICATIONS OF SAN DIEGO
TELAMARKETING COMMUNICATIONS OF SAN LUIS OBISPO
TELAMARKETING COMMUNICATIONS OF SANTA BARBARA
TELAMARKETING COMMUNICATIONS OF SAVANNAH
TELAMARKETING COMMUNICATIONS OF SC INDIANA
TELAMARKETING COMMUNICATIONS OF SHREVEPORT
TELAMARKETING COMMUNICATIONS OF SO EAST FLORIDA
TELAMARKETING COMMUNICATIONS OF TALLAHASSEE
TELAMARKETING COMMUNICATIONS OF TAMPA BAY
TELAMARKETING COMMUNICATIONS OF THE PIEDMONT
TELAMARKETING COMMUNICATIONS OF THE TRI STATES
TELAMARKETING COMMUNICATIONS OF TIDEWATER
TELAMARKETING COMMUNICATIONS OF TRI-CITIES
TELAMARKETING COMMUNICATIONS OF TULSA
TELAMARKETING COMMUNICATIONS OF VENTURA
TELAMARKETING COMMUNICATIONS OF WASHINGTON DC
TELAMARKETING COMMUNICATIONS OF W. VIRGINIA
TELAMARKETING COMMUNICATIONS, INC.
TELAMCO
TELCO OF NACHITOCHES
TELE RATE
TELE SYSTEMS LDS
TELECOM MANAGEMENT INTERNATIONAL, INC.
TELECOM SERVICES CORPORATION
TELECOM SYSTEMS
TELECOMM SVC. CORP.
TELECOMMUNICATIONS SERVICES CORPORATION
TELECOMMUNICATIONS SYSTEMS, INC.
TELECONNECT DISTANCE DIAL
TELEDIAL AMERICA
TELEMANAGEMENT CONSULTANTS
TELEPERO, INC.
TELEPHONE ASSOCIATES LONG DISTANCE
TELEPHONE COMM CORP
TELEPHONE EXPRESS CORPORATION
TELEPHONE SYSTEMS INC.
TELEPHONE SYSTEMS LDS
TELESPHERE NETWORK, INC.
TELESYSTEMS, INC.
TELE-LINK, COMM INC
TELE-SAVER COMM

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
TELE-SYS INC
TELE-TECH INC.
TELNET
TELSHARE
TELTEC SAVINGS COMMUNICATIONS COMPANY
TEL-AMERICA COMMUNICATIONS SERVICES INC.
TEL-AMERICA, INC.
TEL-CAR OF ORLANDO
TEL-CENTRAL OF JEFFERSON CITY
TEL-TOLL INC.
TEL/MAN, INC.
TENEX COMMUNICATIONS CORPORATION
TEXAS LONG DISTANCE
TEXUSTELL
TEX-NET INC.
THE ATLANTA LINE
THE COMMUNIGROUP
THE INTELEPLEX CORPORATION
THE SWITCHBOARD
THOMAS TELEPHONE ANSWERING SERVICE
THOMASTON TOLL CO
THRIFTY CALL
THRIFTY TEL EXCH SANTA FE
TK COMMUNICATIONS, INC.
TODCO
TOLL COMMUNICATION
TOTAL-TEL USA, INC.
TOUCH AMERICA OF HELENA
TOUCH AND SAVE
TOUCH AND SAVE OF NASHVILLE
TO-TEL COMM. SYS.
TRANSAMERICA TELE SYSTEMS
TRANSAMERICA TELECOM
TRANSAMERICAN SYSTEMS, INC.
TRANSCALL AMERICA, INC.
TRAVIS TELCOM
TRITEL COMMUNICATIONS
TRI-COM
TTI MIDLAND ODESSA
TUCK DATA COMMUNICATIONS
TYLER NET
TYLER TELCOM
TYMNET INC.
U S DIAL CORP
U S LINK
UNITED NETWORK SERVICES
UNITED STATES TRANSMISSION SYSTEMS, INC.
UNITED TELEPHONE COMPANY INC
UNITEL OF FARMINGTON
U.S. AMERICALL INC
U.S. TELECOM, INC.
VALLEY NETWORK COMM. INC.
VALLEY STARTELL
VALUE LINE OF AMERILLO
VALUE LINE OF BRAZOSPORT

TABLE 7--LIST OF CARRIERS PURCHASING SWITCHED ACCESS --OCTOBER 1986

Name of Carrier
VALUE LINE OF BRENHAM
VALUE LINE OF KANSAS
VALUE LINE OF SOUTH TEXAS
VALUE LINE OF ST JOSEPH
VALUE LINE OF TRI-CITIES
VALUE LINE OF WEST TEXAS
VALUE LINE OF WITCHITA FALLS
VALU-LINE LONGVIEW
VERTELCO., INC.
VIRTUAL NETWORK SERVICES CORPORATION
WATS AMERICA SOUTHEAST
WESTEL INC
WESTERN EXPRESS COMM
WESTERN TELECOM INC
WESTERN UNION INTERNATIONAL
WESTERN UNION TELEGRAPH COMPANY
WILLIAMS TELECOMMUNICATION
WISCONSIN TELECOMM TECHNOLOGY
WYLON COMM
X-1 COMMUNICATIONS, INC.
YAVAPAI TELEPHONE EXCHANGE

Question: What is the status of AT&T's optional calling plans? Are AT&T's revenues under these tariffs covering AT&T's costs of providing them? Has the demand for these services grown or declined? Are consumers purchasing these services wisely?

Answer: AT&T currently offers two optional calling plans, "Reach Out America" and "Pro America."

Reach Out America

"Reach Out America" service permits a customer to place calls during the night discount period (from 11 p.m. to 8 a.m.) and weekend period (all day Saturday and Sunday until 5 p.m.) anywhere in the country at a flat charge for one hour of service. Additional calls may be made at a slightly lower hourly charge. Customers are also offered an additional option which, for an additional fee, they receive a further 15 percent discount on calls placed during the evening discount period (5 p.m. to 11 p.m. Monday through Friday and Sunday). The tariff became effective in June 1984. AT&T has filed quarterly reports on "Reach Out America" which indicate that AT&T's revenues are sufficient to cover its costs.

On November 19, 1985, AT&T filed a proposal to offer, on a one year trial basis in the state of Illinois, two new service options to "Reach Out America" customers. AT&T's "Call Home Option" enables "Reach Out America" subscribers to place Customer Dialed Calling Card calls during the night/weekend period to a single main telephone number associated with their "Reach Out America" accounts. AT&T also offered an option that permits customers to include their intrastate interLATA night/weekend calls in their monthly allotment of calling time. The Commission allowed these new services to become effective on a trial basis on February 16, 1986. AT&T has filed a tariff transmittal proposing to introduce these options on a standard non-trial basis for the State of Illinois with a scheduled effective date of April 1, 1987.

Pro America

AT&T's "Pro America" service is an optional calling plan under which subscribers pay $15 per month and receive a 10-percent discount on their monthly domestic direct-dial long-distance service. This plan is primarily attractive to small businesses that do not have sufficient traffic to warrant subscribing to WATS. The tariff became effective in May 1986. AT&T's initial report on the results of this optional calling plan are due to be filed in May 1987. The Commission will review this report to determine the effects of the service on revenues and demand.

As indicated above, our initial review of the "Reach Out America" reports indicates that the service results in a positive contribution to revenues. Because we have yet to receive the first "Pro America" report, we are unable to state definitively that this service covers AT&T's costs. Informal reports indicate that demand for both these services is growing. However, the "Reach Out America" reports indicate that consumers who find the service less than cost effective cancel their participation in the service.

Private Radio Activity

Question: Please explain the speed of service entries in the workload and performance summary. For instance, under Aircraft it appears that it took 17 days to dispose of an application in 1986, and it will take 25-35 days in 1987.

Similarly the number of applications pending at the end of 1988 will more than double those pending at the end of 1987.

Answer: The nature of PRB receipts is changing and becoming more difficult

to process. As a result of delicensing, deregulation, and streamlining, the number of relatively simple applications continues to decline while the volume of more complex applications (e.g., 800 MHz land mobile) is increasing.

In addition, a new radio service (900 MHz) has been established in FY 1987 which must be handled without additional resources for processing. (All additional resources are for the new fee collection program.) With less than one-half the fiscal year over, receipts in this new service have reached nearly 40,000 applications. In FY 1988, another new service (Shared UHF) could be added without any increased resources. These new services will be processed by shifting some resources from existing services. This will cause some decline in speeds of service in those existing services.

The number of pending applications will increase from FY 1987 to FY 1988. However, since pending levels at the end of FY 1986 were low, any increase will result in a high percentage change. The bulk of this increase is due to a dramatic increase in receipts generated by two new services without a corresponding increase in resources.

Question: While the FCC met its speed of service goals for all services in FY 1986, will it be able to say the same for 1988?

Answer: We are confident that all goals will be met in FY 1988 as they have been in past years. We will continue to enhance productivity through the use of automation and thus maintain service to the public at the projected goal levels.

Question: How can we charge fees for services while the speed of service declines?

Answer: The fees being charged were mandated by Congress and were intended to cover the cost of processing these applications. With or without fees, the speeds of service will vary depending on receipts, resources and complexity. While resources were provided in the FY 1988 budget for the fee program, the additional steps required to collect fees may initially increase the time required to process license applications. However, the projected speeds of service are quite reasonable and deliver good service to the public.

Grant Program

Question: I understand that the FCC is interested in establishing a grant program to utilize the talents of older Americans. How will such a program assist the Commission?

Answer: The Federal Communications Commission would like the authority to enter into a contract with the American Association of Retired Persons (AARP) or other similar eligible organization like that used by the Environmental Protection Agency (EPA). This program essentially allows the EPA to hire citizens, 55 years of age and older, who do not count against ceiling and do not have to compete for positions. The retired persons are paid through a "contract grant" mechanism between EPA and AARP. In order for the FCC to utilize this program, legislative approval is required. The legislation required is simple and straightforward.

At present EPA is the only agency using this vital human resource. The FCC would like to take advantage of this opportunity to gain access to a group of experienced and mature individuals with a strong work ethic.

Given the difficulty in recruiting for many of our critical vacancies, we believe this would provide the Commission with a strong recruiting base, particularly for short-term, hard-to-fill positions, such as clerks, engineers, accounting technicians, etc.

Satellite Investigative Efforts

Question: How did the FCC identify the "Captain Midnight" who was overriding the HBO signal?

Answer: Our investigation into the HBO jamming incident by "Captain Midnight" was divided into two distinct analyses: technical and operational.

The technical analysis focused on the electronic signature of the character generator and the color bar generator. We were hampered in the technical analysis by inadequate equipment and had to borrow or rent several electronic instruments, including a spectrum analyzer and a one-inch video tape recorder, to accomplish the analysis.

The operational analysis centered on determining which of the approximate 3,000 satellite uplinks had the capability to have caused the interference. Staff personnel in Washington developed a list of 500 uplink facilities with the requisite antenna size. Field personnel interviewed management owners of the uplinks. Ten uplink facilities that matched our criteria--operating power, character generator, and opportunity--were inspected by field personnel. A follow-up investigation resulted in a confession.

Every field facility was involved. Eighty-seven people worked on the project, totalling 3,181 man-hours for three months.

Question: How will the addition of one position allow the Commission "to quickly and efficiently deal with" similar problems?

Answer: We currently have no personnel assigned to investigate satellite interference problems. We have only one satellite specialist in the Field Operations Bureau occupied primarily with signal analysis. We are training specialists in each region to deal with satellite-type problems, but they also have responsibility for microwave services, television, and other complex signals. This position will have as its only responsibility satellite enforcement. When necessary, the employee will coordinate and direct field efforts and available resources to meet the problems; will go into the field personally when special expertise is needed; and will keep abreast of developments in the industry and pursue theory, practices, and techniques for identifying sources of interference. Also, the person will maintain contacts within the industry and become part of the internal network which will assist in dealing with these problems.

Fee Program

Question: How much will be collected in FY 1987?

Answer: We estimate that $10,000,000 will be collected after the program begins on April 1, 1987 through the end of the fiscal year.

Question: How much of the fees will be spent in FY 1987 and for what purposes?

Answer: We estimate that approximately $900,000 will be spent in FY 1987 to implement this program. The major expenditures will be: Personnel Compensation and Benefits - $350,000; ADP equipment, support, and maintenance - $373,000; Space reconfiguration - $30,000; Furniture and equipment - $35,000; Official mail - $12,000; Telephone service and FTS - $15,000; Travel - $10,000; Security Investigations - $20,000; Supplies - $20,000; Publications/publicity - $15,000; Rental of Duplicating Equipment - $5,000; Miscellaneous other expenditure - $15,000.

Question: How much will be collected in FY 1988?

Answer: We estimate that $36,000,000 will be collected in FY 1988.

Question: Why does the direct appropriations have to stand the cost of $550,000 to pay 35 people to collect the fees? Why isn't this charged to the fee account?

Answer: The Office of Management and Budget (OMB) advised the Commission that receipts collected as a result of the Fee Program were proprietary and therefore should go directly to the U. S. Treasury.

If Congress decides to allow the Commission to continue using receipts collected to offset the cost of the Fee Program, we would still require authority for the additional 35 full-time permanent positions. Also, our latest estimates of the cost in FY 1988 of collecting fees is $755,000. This includes the costs associated with the FY 1987 pay raise and the new Federal Employees Retirement System.

Relationship of Workyears to Full-Time Equivalents

Question: For 1988 many offices are expected to have more workyears than full time equivalents. For instances, the Financial Management Division shows Full Time Equivalents of 47 and workyears of 49. Please explain the relationship between these numbers?

Answer: Full-time Equivalents (FTEs) and Workyears are both defined as the total number of hours worked or to be worked in a fiscal year divided by the number of compensable hours (2,087) in a fiscal year. FTEs include all Full-time permanent, part-time permanent and temporary employees and exclude summer aids, stay-in-school students, junior fellows, volunteers, worker trainees, interns, IPAs, certain consultants and employees on terminal sick leave. Also, FTEs do not include overtime hours or regular terminal leave. Workyears are similar to FTEs; however, workyears include all compensable hours from whatever source, including overtime, terminal leave, administrative leave, stay-in-school students, worker trainees, interns, etc. Thus, workyears are generally higher than FTEs.

Adjustments to Base

Question: The 1988 request includes "$2,015,000 to allow the Commission to reach its authorized full-time equivalent ceiling". Does not the amount of funding available in a particular year determine this ceiling, so that is really a program increase disguised as a base adjustment?

Answer: No, these requested funds are not a program increase. Congress specifically authorized 1,855 full-time permanent positions for the Commission in FY 1987. We are currently not able to fill all of these authorized positions because of a shortage in our personnel funds accounts. Over the past several years funds have been inadequate to fill, and keep filled, all of our authorized positions for several reasons. Principally, we were not appropriated funds to cover all withingrade and promotion costs. Normal savings from personnel turnover has been inadequate to cover these increases in the average cost of a workyear. Because of this shortfall, we have had a hiring freeze - either total or partial - in effect for the past two years. We have been able to meet our program objectives in the short-term. However, we believe that we must begin filling these vacancies if we are to successfully continue to meet the workload challenges facing the Commission.

Question: How many workyears will the $2,015,000 fund and where will they be assigned?

Answer: These funds will cover the cost of approximately 60 additional workyears, which would result from filling vacancies. These additional

workyears will accrue to all programs throughout the Commission where vacancies exist at the beginning of FY 1988.

Question: The Commission is also requesting $53,000 to restore the international travel expense element. That is 25% more than the amount available in fiscal 1987. What trips overseas are we foregoing this year and why can't we get along without them in 1988?

Answer: The Commission initially budgeted $253,000 for international travel for FY 1987. In order to partially offset the reduced appropriation level, the Commission reduced its international travel account by $53,000. We have identified $269,000 of required international travel. However, in order to stay within our travel allowance, we will be attending only the highest priority conferences/meetings this year and we will delay certain bilateral meetings until next fiscal year. It is critical that the FCC participate in international meetings to ensure that the United States interests are protected. At the direction of Congress, the Commission is also becoming more involved in international trade issues which require additional travel funds.

We have not yet identified all of the trips which will be eliminated this fiscal year.

Question: Why is it indicated that $253,000 is the base level for international travel when only $116,000 was spent for this element in 1986 and $200,000 is available in 1987?

Answer: As indicated above, the budget for FY 1987 was $253,000. This amount was reduced due to a lower appropriations level. The initial budget for FY 1986 was $200,000 but was reduced to $116,000 as a part of the Gramm-Rudman-Hollings sequestration.

Question: If the additional international travel funds are not approved, does the FCC require the additional $1,000 for official representation?

Answer: Yes, the FCC does need the additional $1,000 for official reception and representation funds. As a part of our increased involvement in the international trade arena, the FCC is entertaining members of the international community more frequently in Washington, D.C. as well as at international meetings.

Question: Why are moving and related expenses expected to increase by 182% in 1988?

Answer: The travel regulations concerning moving expenses were changed in 1985 increasing the cost of moves by approximately 50%. The average cost of a move is now $30,000 to $35,000. The Commission has 45 different field installations. As vacancies occur, supervisory and senior technical positions must be filled by reassigning trained engineers to cover these vacancies. The funds requested in 1988 will allow approximately nine relocations at the current average cost. As a result of a hiring freeze last year, the Field Operations Bureau has twenty vacancies, mostly in the field offices, which need to be filled. Funding is available this fiscal year to relocate three to four employees to different locations. Other senior vacancies will be filled next fiscal year.

Mass Media Activity

Question: The justifications indicate that a number of agenda items submitted to the Commission were not completed in FY 1986 and are scheduled for action during FY 1987. These include:

TV Technical Standards (Part 73)
FM Translator and FM Booster Technical Standards (Part 74L)

Cable Ownership Reporting Requirements
Expanded Use of Wireless Microphones
Technical Standards for ITFS, etc.

Please explain why these items were not completed in 1986?

Answer: Due to staff shortages in our Mass Media Engineering Policy Branch, some delay has been experienced in completing some technical items. It is anticipated that TV Technical Standards (Part 73) will be considered in a proceeding to begin this spring. Unanticipated work on various aspects of the Commission's mandatory cable television carriage Order has also forced postponement of completion of the FM Translator and FM Booster Technical Standards (Part 74L). A Notice regarding FM Booster Technical Standards is now out for public comment [Notice of Proposed Rule Making in MM Docket 87-13, FCC 87-43; Released February 19, 1987]. A final Order addressing FM Translator Technical Standards is now being drafted, and it is anticipated that the Commission will consider this matter this spring. Final action on Cable Ownership Reporting Requirements has been delayed pending a decision as to whether the Commission will consider a petition for rule making requesting institution of CATV ownership rules. The Commission issued a Notice of Proposed Rulemaking on expanded use of wireless microphones during FY 1986. A Report and Order was adopted in this matter on December 29, 1986. Due to the FY 1986 staff shortages described above, a Report and Order was adopted in early FY 1987, on December 19, 1986, finalizing new technical standards for ITFS and other services.

Radio Marti

Question: How many claims have been submitted for compensation due to Radio Marti?

Answer: Nine claims for compensation were filed with the Commission prior to the Commencement of Radio Marti broadcasting on May 20, 1985. No additional claims have been received since that time.

Question: How many have the FCC approved and sent to USIA for payment and what is the aggregate amount of these claims?

Answer: We have processed and have forwarded findings to USIA for all nine claims. The total amount of compensation approved for these nine claims is $1,492,617.13.

Question: Are there any claims still pending, and if so, how long have they been pending?

Answer: There are no claims presently pending.

Question: When was the most recent claim submitted?

Answer: The most recent claim submitted was for Station WSUN, St. Petersburg, Florida, for $35,000.00 on April 10, 1985. This claim was approved for $18,979.58 on February 24, 1987.

QUESTIONS SUBMITTED BY SENATOR INOUYE

MUST-CARRY

Question: In the past, you have often attempted to require some policy change in the future, either by "sunsetting" rules or requiring certain measures to be adopted. In the Financial Interest/Syndication proceeding, you tried to sunset rules many years in the future, and this caused great concern. This proceeding, of course, never moved forward. In the 7-7-7 rule, you also tried to sunset the new limits, and Congress had to enter to make you rethink this. In the Subscriber Line Charge, you attempted to increase the charge for years in the future, and Congress again had to intervene. I think we all find it difficult to believe anyone knows what the future will hold, even a few years down the road. Why then have you used this "sunset" device in the must carry proceeding? How can you possibly know what will happen in five years, especially if you change the A/B switch requirement to make it optional? After all, can't the FCC begin a proceeding at any time it wishes?

Answer: The Commission determined that the most appropriate course of action in the cable signal carriage matter was to adopt a plan that would make cable subscribers aware of the need for the capability to access broadcast signals directly off-the-air and that would actively assist the development of such capability. To implement this decision, it adopted a two-part regulatory program. The first part is intended to alter existing practices and concepts with respect to connection of cable service that can render cable subscribers unable to receive broadcast signals. The second part is intended to provide interim must carry protection to the broadcast television industry during the transition period where these concepts and practices are being altered.

In considering options for resolving this matter, the Commission found that must carry rules are a stringent form of regulation that intrude on cable operators' First Amendment rights. While it recognized that consumers would have difficulty receiving broadcast signals now if they were not carried on their cable service, the Commission indicated that it is confident that the input selector switch and consumer education requirements will resolve this problem. Thus, the Commission found that there was no need or justification for imposing permanent must carry rules. The Commission concluded that must carry regulations are neither desirable nor sustainable as a long-term solution to the problem of cable subscribers' access to broadcast signals and, in fact, would impede its objective of maximizing program choices to viewers. The interim must carry rules were found to be necessary only to preserve cable subscribers' access to broadcast programming and to ensure that broadcast television remains a competitive source of alternative programming during the transition to the new environment. The Commission determined that a five year period would allow sufficient time for this transition and thus provided that the interim must carry rules would expire at the end of that time. However, this matter is presently under review. (Refer to the response above.)

In the must carry matter there are many unknowns and factors that do not lend themselves to quantification and, therefore it is not possible to predict with certainty the ultimate effectiveness of the Commission's policy decision. The five-year transition period represents the Commission's best assessment of a reasonable time to accomplish its policy goals. The Commission can, of course, initiate policy proceedings whenever it believes such action is appropriate or necessary. In the instant case, it has indicated that it intends to initiate and complete a proceeding sufficiently prior to the end of the transition period to determine whether there are particular situations where must carry regulations might continue to be necessary. By taking this "scheduled" approach, the Commission is providing the affected parties with a fixed plan for transition and thereby avoiding possible uncertainty that might interfere with achievement of its goals.

Question: Do you believe that the FCC's new must carry rules need to contain an A/B switch provision in order for the rules to withstand constitutional challenge?

Answer: The input selector switch provisions of the new rules are intended to actively assist consumers in obtaining capability for independent reception of broadcast signals. In this respect, they are an integral element of that portion of the two-part program which seeks to correct the misperception by cable subscribers that their only means for receiving broadcast signals is through their cable service. Thus, the input selector switch requirements are part of the solution for resolving the basic problem in the must carry matter. They are critical to the constitutional analysis that will be used in reviewing our decision. Under almost any First Amendment analysis, the court will be looking at whether the rules in question promote a "substantial governmental interest" and impose no greater burden on speech than is "essential." The existence of some mechanism for cable subscribers to access local broadcast stations independently of cable carriage relates directly to the essentiality of any burden imposed and to the nature of the governmental interest involved. The existence of the input selector switch option, thus, will be directly relevant to the constitutional analysis of continued mandatory carriage rules. The exact nature of the constitutional test to be applied is a matter under review in connection with the pending reconsideration petitions. This matter is presently under review (refer to the response above).

Question: Since the must carry rules have lapsed, has the FCC engaged in a process of finding how television licensees have actually faired and whether the public interest has been harmed?

Answer: The Commission found that the record developed in response to the Notice of Inquiry and Notice of Proposed Rule Making and the subsequent Order addressing the "industry agreement" provided adequate information upon which to decide the must carry matter. Thus, it was not necessary to conduct a separate fact-finding or data gathering activity or proceeding to examine how broadcast stations are faring in the absence of must carry regulation since the Quincy decision. The record indicated that there is evidence that some cable systems have ceased to carry individual broadcast stations, refused to carry new stations, and/or requested payment for carriage of stations. This evidence, coupled with other information indicating that consumers tend to disconnect their antennas when they subscribe to cable service, led the Commission to conclude that some cable subscribers may not have access to all of the broadcast signals available in their area. In considering the behavior of the cable industry since the Quincy decision, the Commission also observed that many cable operators thus far may have been hesitant to exercise their new freedom in view of the pending rule making in this matter. In this respect, the Commission noted that NCTA leaders apparently suggested to members that they continue to carry local signals until this matter is settled.

FINANCIAL INTEREST/SYNDICATION

Question: Do you intend to move forward on the FCC's rulemaking regarding the financial interest and syndication rules?

Answer: There is no work presently in progress relating to this proceeding and none has been scheduled.

COMMON CARRIER

Question: What is the status of the Joint Board inquiry into subscriber line charges? When is a decision due? What position is the FCC advocating?

Answer: On July 2, 1986, the Commission released a Further Notice of Proposed Rulemaking asking the Joint Board to examine the effects of SLCs,

the federal lifeline assistance program, and the high cost assistance measures on the goals of the access charge proceeding. It also asked the Joint Board to make recommendations for further action. Extensive comments and reply comments were received from interexchange carriers, local exchange carriers, state public utility commissions, large users, and consumer groups. These pleadings have been thoroughly reviewed by the Joint Board staff. Staff members met in mid-February, and, while good progress was made on a number of issues, further discussion and analyses are continuing. The Joint Board plans to meet some time in March, at which time a decision regarding SLCs and related issues will be made. In light of the fact that the Joint Board is still deliberating these matters I am not in a position to discuss options for resolution of these issues. Although these are very difficult questions, I remain optimistic that federal and state regulators, working together in a spirit of compromise, will be able to develop a consensus resolution of these issues that reflects the interests of all concerned.

Question: The FCC has shifted from an emphasis on the dangers of bypass to an emphasis on the virtues of promoting network efficiency as the rationale for SLCs. Why doesn't the FCC emphasize the bypass threat anymore? What does the FCC mean by network efficiency? What evidence does the FCC have to show that subscriber line charges have promoted network efficiency?

Answer: Throughout the access charge proceeding and the Joint Board's consideration of SLCs, four goals have been stressed: preserving universal service, promoting economic efficiency, eliminating service pricing discrimination, and deterring uneconomic bypass. These four goals, first enunciated in 1980, guided the Joint Board and the Commission in their review and recommendations regarding the implementation of limited subscriber line charges in 1984. All four of these goals are being considered by the Joint Board and the Commission in the pending proceeding to reexamine SLCs and other related access charge issues.

The Joint Board has not yet completed its review of the record developed in the reexamination proceeding; and thus, the Commission is not presently in a position to draw firm conclusions regarding the issues in question. As a member of the Joint Board, however, I intend to examine the effects of any plan for further action on all four goals of the access charge proceeding.

In the context of the access charge proceeding, economic efficiency or network efficiency refers to measures designed to encourage use of the public switched network. Because many telephone company costs are fixed, additional network usage allows cost to be spread over more units of traffic, reducing the per unit charges paid by all consumers. We also describe measures which encourage the companies to reduce costs as promoting efficiency.

In response to your inquiries regarding bypass and economic efficiency, I would also like to note that the record compiled in response to the Further Notice contains numerous studies and analyses concerning the threat of bypass. Many of the commenters to the Further Notice issued July 1986 have also stressed the efficiency gains that have resulted from the implementation of SLCs. The Joint Board will be examining these issues and related studies in reaching a recommendation that addresses all four goals of the access charge proceeding.

Question: What is the FCC's latest information on universal service and local phone rates? Has the FCC implemented the agreement with REA?

Answer: The latest available data on universal service comes from the Bureau of The Census. Their Current Population Survey for November 1986 indicates that 89.9 million households subscribe to telephone service. This is an increase of 4 million households over the same month during 1983. During that same three year period, there was a statistically significant

increase in the percent of U.S. households with telephone service with household penetration increasing from 91.4% in November 1983 to 92.4% in November 1986.

After major increases in the years 1981 through 1984, local telephone rates appear to have stabilized. Both the Consumer Price Index (CPI) for all telephone services and the index of local telephone charges declined in November 1986 and declined again in December - the first time that either index declined in two consecutive months since 1979. With virtually no large rate cases pending before state public utility commissions, upward pressures on local rates during the next year should be moderated.

The FCC concluded a formal agreement with the Rural Electrification Administration (REA) in July 1986 in order to provide a more formal exchange of information related to monitoring rural areas. The agreement has been implemented with a substantial amount of information exchanged by the FCC and REA staffs. This data shows no indications of a threat to universal service in rural areas.

Question: What has the FCC done recently to reduce the regulatory burdens on small telephone companies?

Answer: On December 12, 1986, in response to a petition filed by the United States Telephone Association (USTA), the Commission released a Notice of Proposed Rulemaking to reduce the administrative and regulatory burdens on small telephone companies. In particular, the Commission proposed measures designed to allow small companies to file their own Traffic Sensitive access tariffs without providing the same degree of cost support presently required. The Commission proposed that it direct the National Exchange Carrier Association (NECA) to file a simplified access tariff for small carriers which would contain only tariff terms and conditions. A small carrier could then show its own rates for the service it offers in a separate rate schedule filing, referring to the terms and conditions applicable to those services. Such a filing would be in lieu of participation in the existing Traffic Sensitive access charge pool. The participation also proposed that the small telephone companies use historical data. Additionally, the projected demand is to set access rates, thereby reducing the likelihood of error since the cost and demand figures would be based on actual data. The Commission further proposed to eliminate the data filing requirements and the liability for automatic refunds established in CC Docket No. 84-800 for small companies that elect to use this approach.

Additionally, the Commission proposed to require that small telephone companies file access tariffs only every other year, rather than annually. Finally, the Commission proposed to establish the threshold for treatment as a small company at 50,000 access lines to conform with the existing definition used for determining eligibility for treatment as a small company for purposes of the Universal Service Fund. Comments on this Notice of Proposed Rulemaking were filed on January 26, 1987, and reply comments on February 25, 1987.

Question: What is the status of the Supplemental NPRM in the Computer III? When can a decision be expected?

Answer: The staff is in the process of preparing a recommendation for Commission action on the Computer III Supplemental Notice. A decision can be expected by early summer 1987.

Question: What progress are the BOCs and AT&T making in implementing ONA? Does the FCC expect that they will all submit satisfactory ONA plans by the February 1, 1988 deadline?

Answer: The BOCs are actively planning ONA and are conducting nationwide

and regional forums with other segments of the telecommunications industry for ONA planning purposes. AT&T has petitioned for reconsideration of the Commission's decision to apply ONA to it, but is also engaged in ONA planning activities as an equipment manufacturer, as well as a network services provider. The Commission expects all carriers subject to the ONA requirements to submit ONA plans by February 1, 1988. These plans will be subject to public comments, and Commission review prior to implementation. If the comments or our review reveal shortcomings in these plans, revisions will be required.

Question: Are all of the BOCs planning to eliminate their separate subsidiaries for the provision of CPE? If not, why aren't they? Is there any possibility that AT&T or the BOCs will decide not to eliminate their separate subsidiaries for the provision of enhanced services rather than comply with the FCC's ONA requirements?

Answer: Although all of the BOCs strongly supported the elimination of our Computer II separate subsidiary requirements, three of them BOCs indicated that they would like the regulatory flexibility to provide CPE through some form of subsidiary. No BOC, however, has stated that it intends to retain a CPE subsidiary that would fully comply with our Computer II requirements. We concluded in the BOC Structural Relief Order that if a BOC should choose to maintain some form or structural separation other than full Computer II structural separation, we will permit it to demonstrate in its complaince plans that the structural approach it proposes satisfies our nonstructural safeguards or provides a fully adequate alternative to them. Regardless of the corporate structure chosen, all BOC will have to comply with the cost allocation requirements set forth in the Commission's Joint Cost Order.

While it is possible that AT&T or a BOC may wish to retain structural separation, the effect of that choice on its obligation to comply with our ONA requirements is an issue whose resolution awaits completion of our Computer III Reconsideration Order. We note, however, that, as part of the development of ONA Plans, there is an ONA forum process now under way in which all interested parties are participating.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Question: Satellite Delivered Television Programming. I understand that the Commission has recently reviewed the findings of its Notice of Inquiry into the scrambling of satellite delivered television signals. As you know, I remain interested in assuring that a competitive market for the distribution of scrambled programming evolves to bring the lowest prices and greatest variety to consumers. I have several questions on this topic.

a) Could you summarize the Commission's findings and recommendations for this market? Could you please provide the Subcommittee with any reports or findings that have resulted from this inquiry?

b) In the course of the inquiry, did you find that there are "third party" distributors to consumers of direct satellite delivered broadcasts? In other words, did you find any distributors of scrambled satellite delivered programming who are neither integrated with cable systems (as operators or MSOs) nor themselves program producers and providers? Are there any such "third party" distributors who are offering packaged programming?

c) Do you believe cable companies should be allowed to distribute scrambled satellite programming beyond franchise areas? What could be done to enhance competition in the rural market place for these programs?

d) The Commission's General Counsel has made a determination that the "front haul feed" of a network to its affiliate stations is a private communication and its viewing by the general public is illegal. As you know, many Americans cannot get any network affiliate signal.

What percentage of the continental United States territory cannot receive a network affiliate signal? How many television households live in that area? Don't these households have the right -- since satellite antenna technology has made it possible -- to view network programs that the rest of us take for granted?

How many applications are pending at the Commission for translator construction to extend affiliate signals to presently unserved areas? Does the Commission believe there is any way to protect private communications and still allow those in unserved areas who may have satellite television antennas to continue to view satellite delivered network signals until affiliate broadcast signals become available?

Answer:

a) The Report on satellite television signals scrambling, which was prepared in cooperation with the National Telecommunications and Information Administration (NTIA), and adopted by the Commission on February 12, 1987, concludes that there is no current need for government intervention in the HSD marketplace. The provision of service to HSD households is still in the early stages of development. While it appears to be developing in a competitive fashion, it is appropriate for the Commission to monitor developments there for the next year. Therefore, our staff will provide quarterly reports to the Commission and to NTIA for the next year. The Commission will report to Congress if any remedial action is necessary and will deliver a final report to the Congress no later than one year after the adoption of this Report.

At the present time, 34 of the roughly 70 satellite cable services have announced plans to scramble their signals. Five premium channels and four basic cable services, plus two pay per view channels and one "adult" channel, have actually begun scrambling. All of the American satellite cable programmers with scrambling plans have chosen the Videocipher II system. Thus, it appears that the marketplace has settled on that system as

a de facto standard. While attempts have been made to break the Videocipher II code, they are being combatted both by legal and technical means.

The Report finds that signal scrambling serves to protect programmers from commercial theft of their services and allows them to receive compensation from all who view their copyrighted product. This serves the public interest in maintaining the incentives to produce new programming.

With regard to program distribution, several programmers are selling directly to HSDs on a national basis, and some of them have also acquired non-exclusive rights to market other services nationally. Programmers are also licensing cable operators on a non-exclusive basis to distrubute to HSDs in their franchise areas. This structure allows for head-to-head competition among programmers on a national basis. At present, little information is available on HSD program packages, but as more basic channels scramble, it is anticipated that more discounted program packages will develop. In the meantime, the sequence of price reductions made by the movie channels over the past several months suggests a competitive process at work.

The Report finds that the broadcast networks are legally entitled to scramble their network feeds and to decline to sell them to HSDs. While this would limit service to a small fraction of television households, it would protect the exclusivity provisions of the network-affiliate distribution system that efficently serves the preponderance of households. Satellite services, including news and entertainment, are available to households without over-the-air services.

The Report concludes that no action is warranted at this time with respect to superstation scrambling and notes that compulsory licensing issues are the subject of a separate Commission inquiry.

The Report denies a request by the Satellite Television Viewing Rights Coalition, Inc., for a full evidentiary hearing on scrambling. I would be pleased to provide the Subcommittee with copies of the Report.

b) At present no "third party" distributors are offering packaged programming. One such distributor, the National Rural Telecommunications Cooperative (NRTC), a unit of the National Rural Electric Cooperative Association, has "agreements in principle" to provide a package of 12 basic cable channels to home satellite dish (HSD) households for $10-$12 per month. NRTC states that its package will be available to the public in late spring or early summer. NRTC has met with Home Box Office, Showtime, and the Disney Channel as well. It characterizes its talks with the Disney Channel as "very promising."

Home Satellite Services (HSS) is a newly-formed entity that is seeking to become a third party distributor. It has no agreements with programmers yet, but its announced pricing plans call for a basic service of 15-20 signals for $10-11 per month, $10-12 per month for the first premium service, $6 per month for the second, and $5 per month for the third. Thus a package of basic plus two pay services would be sold for $26 - $29 per month. United Cable offers a similar package for $29.95 per month; a Videocipher II decoder is provided at no additional charge if a three year subscription is purchased. Telecommunication, Inc. has a basic plus two pay services package for $23.50 per month, $29.50 with the lease of Videocipher II.

The Amway Corporation has tried without success thus far to put together a program package. Amway has exclusive distribution rights SelecTV, which describes itself as "the only specifically non-cable premium movie service." SelecTV is offered through MDS, LPTV, SMATV, and STV facilities, as well as directly to home satellite dish households.

c) Home Box Office and Showtime, the two major movie channels, have each announced plans to offer a discounted program package to home satellite dish owners. Turner Broadcasting has similar plans, and United Video is offering a package of three "superstations" as indicated in the answer to Question b, at least one third party distributor seems likely to offer a package. Few basic cable channels have begun to scramble yet, so these discounted program packages are generally not yet on the market. However, as more basic channels do begin to scramble, I anticipate that packages will be available from several sources, competing head-to-head. While I believe that these packagers will compete vigorously throughout the country, I find it especially plausible that they will do so in the rural regions outside of cable franchise areas, where the question of programmers competing with their largest distributor--cable--does not arise. Hence I believe that no government intervention is needed at this time to enhance competition in the rural marketplace.

The programmers that have limited cable operator distribution to the cable franchise area stress the advantages cable operators have with respect to local promotion, marketing, billing, and even servicing of customers. In regard to promotion and advertising, some programmers point out that a large share of homes already passed by cable do not subscribe to their services. The programmers argue that, from the perspective of increasing subscribership, it is efficient to encourage cable operators to concentrate on marketing within their franchise areas, where they have a comparative advantage.

d) The data developed in our Report did not disclose the total geographic territory composing the nation's "white area" but did reveal that less than 500,000 households are in such areas. (It also disclosed that two-thirds of HSD owners have access to network signals either off-air or through cable.)

The Report determined that under Section 705 of the Act, network "front haul feeds" are private communications not intended for use by the general public. We concluded that even if this Commission wished to take action in this area we would be prevented from doing so by both Section 705 and the Omnibus Crime Control and Safe Streets Act.

At present there are some 7,500 Low Power translator applications pending. There is no method available to ascertain how many of these are for translators for unserved areas. The Report explored the possibilities of both an "addressable" network feed and a "clean" network feed but found both to be unworkable in practical application.

Question: Public Television and Must-Carry. I understand that the Commission recently stayed its rules on the mandatory carriage of certain television signals for cable companies. What is the current status of the "must-carry" rulemaking. How many public television stations have been dropped from cable systems during the recent period in which the "must-carry" rules have been suspended? How many have been dropped since the original Quincy decision? What are the Commission's views on the dropping of public television stations by cable operators?

Do you have any figures on the number of cable systems that have forced public television stations to share channels? Also, I understand that some cable systems have moved public television stations to a higher, harder-to-access tier. As I understand it, they are putting public stations on a channel higher than what someone who does not subscribe to premium channels (and leases a cable "box" with more channel capabilities) can access without disconnecting the cable altogether. Do you have any indications that this is happening? Do you have any figures on how frequently this may be occurring?

Would the Commission consider adopting interim rules disallowing public

television drops until new "must-carry" rules are in force? Is the Commission willing to take any interim steps in this direction?

Answer: The new rules for the two-part program for resolving the must carry matter were stayed by the Commission in an Order adopted December 24, 1986. The Commission indicated that this stay would remain in effect until 30 days after release of a Memorandum Opinion and Order addressing petitions for reconsideration of the Report and Order in this proceeding. It is anticipated that the Commission will have completed the reconsideration process by the spring.

Cable systems are not required to notify the Commission each time they add or remove signals. With 6,000 cable systems in the United States, such a process would be extremely burdensome. However, we have received a letter from the National Association of Public Television Stations (NAPTS) which indicates that they have identified 157 instances where public television stations have been dropped from cable systems. The reliability of the data provided in the NAPTS letter has been challenged in a subsequent letter from John P. Cole. He contends that the NAPTS data is misleading because many of the stations listed as dropped are located at distances beyond the 50-mile zone within which stations must be located to qualify for carriage under the interim must carry rules. Additionally, on February 25, 1987, the National Cable Television Association filed an extensive response to the NAPTS data. NCTA alleges that "The NAPTS list (is) ridden with errors, and fundamentally misleading ..."

In the Report and Order, the Commission stated that there is a federal interest in ensuring access by cable subscribers to the service of noncommercial television stations during the transition period. In this respect, the Commission found that particular rule provisions for carriage of noncommercial stations are justified in the interim period. It therefore adopted the following special interim must carry rules provisions:

1) Noncommercial stations and translators do not have to meet the viewership standards to qualify for must carry status;

2) All cable systems, including those with 20 or fewer channels must carry at least one qualified noncommercial station or translator, if available;

3) If two or more noncommercial stations are eligible, cable systems with 54 or more channels must carry at least two such stations;

4) Cable systems must carry duplicating noncommercial stations up to the limit of their signal carriage obligations; and,

5) Noncommercial educational translators are eligible for qualified status.

The Commission did not find it necessary or desirable to require cable systems to carry all eligible noncommercial stations in cases where such carriage would exceed the limits of a cable systems channel carriage obligation. In this respect, the Commission stated that the rules it adopted strike an adequate balance between the competing needs to provide access to noncommercial programming and to protect cable operators' opportunities for exercising editorial discretion.

The only information we have that cable operators might be engaging in the practice of sharing channels for public stations is an allegation of such conduct contained in the NAPTS letter mentioned above.

We have no indications that cable operators are engaging in such a practice. However, the input selector switch and consumer education program requirements of the new rules are intended to enable cable subscribers to be

able to access any available noncommercial stations that might not be carried on the tier, or tiers, of service they purchase.

As indicated above, the Commission intends to complete its action addressing petitions for reconsideration of its decision in the must carry matter in the spring and that the new rules would become effective 30 days thereafter. As this is a relatively short time frame, it would not seem desirable or cost-effective to implement short term must carry requirements for noncommercial stations. Moreover, the overinclusive list of stations submitted by NAPTS not withstanding, we find no indication of a sufficiently serious pattern of cable systems ceasing or refusing to carry noncommercial stations to warrant such action.

Question: Rural Telephone Costs. There are several proposals that would drastically increase the cost of telephone services to rural areas that deeply concern me. What is the present mood at the Commission with respect to increasing subscriber line charges? Also, is the Commission considering proposals to deaverage long distance toll rates?

Answer: The Commission is committed to ensuring the continuation of universal telephone service at affordable rates for all Americans, including those in rural areas. We intend to ensure that the new telecommunications environment works for the small telephone companies that provide service to many rural Americans, as well as the larger companies serving urban areas. The Commission is effecting this policy in a number of different ways. Most importantly, in 1983, the Joint Board recommended, and the Commission adopted, measures designed to assist customers served by telephone companies with unusually high costs, many of which operate in rural and remote areas. This assistance helps keep local exchange rates in high cost rural areas lower than they would otherwise be with the dollar amount of assistance provided through this mechanism depending on the local company's costs. In 1984, the Joint Board subsequently recommended retargeting the high cost formula to direct more assistance to the smaller companies and those with the highest costs. This recommendation was adopted by the Commission. A proposal for further retargeting of the high cost fund designed to give more assistance to small and medium size companies is currently pending.

In the access charge proceeding, the Commission initially required the mandatory pooling and averaging of local loop and certain other fixed costs for purposes of developing certain access charges paid by the interexchange carriers. This was done out of an historic concern that, absent pooling, interstate carriers would vary the rates they charge, in part, based on the access costs in a particular area, and that such a move could have a severe impact on customers in rural areas with high costs. The Joint Board is presently considering a number of proposals to revise the existing pooling mechanism. I am well aware of the concerns expressed by some commenters that elimination of this pooling mechanism could increase pressures to the average toll rates, and have an adverse impact on high-cost rural areas.

Please be assured that I am committed to ensuring that such disruptive rate deaveraging does not occur.

Finally, regarding subscriber line charges, the Joint Board and the Commission will carefully consider the impact of any change on all affected parties, including rural telephone customers. I also want to stress the importance of our existing lifeline assistance program, which allows a waiver of the SLCs for qualifying households, thereby promoting universal service among low income households.

Question: Regulatory Flexibility Act. Last year, I asked you what the Commission's views were on applying the terms of the Regulatory Flexibility Act to small telephone companies with 50,000 access lines or fewer in order to reduce the paper work burden on these small businesses. Does the

Commission now apply the terms and procedures set forth in this law to such companies?

Answer: The Commission has always taken steps to ensure a full opportunity for comment on matters affecting small telephone companies, and I believe that we have a fine substantive record of concern for the needs of these companies. However, we do not believe that the provisions of the Regulatory Flexibility Act are applicable to matters affecting small local exchange companies in light of the monopoly nature of the services which these companies provide. Despite this conclusion, we have begun using the Regulatory Flexibility Act procedures in examining the impact of proposed policy and rule changes on small telephone companies. We hope that this action will ensure that what we view as a minor procedural issue does not obscure the Commission's fine substantive record on matters affecting small telephone companies.

Question: Long Distance Rate Reviews. As you know, I have been interested in the Commission's ability to review tariff filings submitted by AT&T and the way in which AT&T has distributed rate cuts among its various services. Does the Commission have sufficient resources to review both the cost and demand data submitted by AT&T to substantiate its requests for rate reductions? What resources do you estimate would be necessary for the Commission to develop its own independent data base by which to verify the cost and demand justifications submitted by AT&T in its tariff filings?

Some have suggested that the Commission has allowed AT&T to pass most of the rate reductions to primarily large corporate consumers rather than to small companies and residential customers. They cite the fact that in accordance with the most recent rate reduction (effective January 1, 1987), AT&T cut daytime rates by 14.5% and night-time rates by 5.9%. It is argued that residential customers are the major consumers of night-time service, and, therefore, they are not receiving the full benefit of the rate cuts. Does the Commission believe that AT&T should pass rate reductions on to its customers uniformly?

Answer: The Commission has conducted, and will continue to conduct, a thorough and timely investigation of any tariff filings submitted by AT&T, including the relevant cost and demand data. Furthermore, a proposal has been submitted to the Managing Director for implementing the Automated Reporting and Management Information System (ARMIS) within our current budget. This will provide us with an independent data base for evaluating carrier costs and demand data.

The Bureau has also developed an independent demand forecast model to assist in evaluating tariff filings by AT&T and other carriers. This model was recently used to establish the demand for switched access service to be used in calculating the National Exchange Carrier Association's charges for switched access service which became effective on January 1, 1987.

It is true that in the January 1, 1987 rate reductions, the largest decreases were in the day rate period while smaller percentage reductions were implemented for calling in the evening and night/weekend rate periods. Nevertheless, we believe that residential customers will share fully in the benefits of AT&T's recent rate reductions.

Petitions to suspend or reject portions of AT&T's November 1986 tariff revisions (which became effective January 1, 1987) were filed by a number of interested parties. None of the petitions raised AT&T's proposed non-uniform rate reductions as a basis for challenging the filing. This argument was made, however, in response to a previous AT&T filing. At that time, the Common Carrier Bureau found that such non-uniform rate reductions are not inconsistent with the Communications Act, and in fact reduce the threat of below-cost pricing that might result from an across-the-board

reduction insensitive to the existing profit margins which are much lower on night and weekend calls than on daytime calls.

The Bureau also found that lower reductions in off-peak rates do not disadvantage residential customers. According to AT&T, residential customers place a majority of their calls in the day and evening rate periods, not in the night/weekend period. Thus, the average residential customer realizes savings greatly in excess of the percentage reduction for night/weekend calling. AT&T's non-uniform rate reductions were also intended, in part, to improve its ability to compete for high volume business customers. Before the recent revisions, AT&T's day "profit margin" was more than twice as high as its evening margin and almost three times as high as its night/weekend margin. The recent realignment of AT&T's MTS rates will, thus, allow it to more equitably recover fixed costs (including the Carrier Common Line Charge) during all times of day. We do not believe, however, that the structure of AT&T's rate reduction is unfair to residential customers particularly in light of the fact that residential subscribers have relatively high levels of daytime calling and already benefit from steeply discounted evening, night, and weekend rates.

Question: High Definition Television. I understand that the Commission is considering proposals to use a portion of the UHF spectrum for private land mobile radio services. What are the Commission's plans with respect to this proposal? Is there a demand for greater private land mobile spectrum? Will you carefully consider other competing requests for this spectrum, such as efforts by some in the broadcasting community to use this frequency for high definition television?

Answer: The Commission has proposed reallocating UHF-TV spectrum in eight major urban areas for use by the land mobile service. The demand for land mobile spectrum has been well documented in studies by Commission staff and through a public inquiry proceeding. In the reallocation proceeding the spectrum requirements and concern of both the land mobile service and the broadcast service have been brought to the attention of the Commission. These include concerns about future spectrum availability for high definition television. All of these requirements for spectrum will be considered by the Commission in resolving this matter.

Questions Submitted by Senator Lautenberg

FM RADIO

Question: The New Jersey Class A Broadcasters Association, representing a majority of our state's FM broadcasters, recently filed a proposal to allow a blanket power increase to 6 kilowatts power at 100 meters height (or 4 kilowatts at 125 meters) for all Class A broadcast stations from the present limits of 3 kilowatts at 100 meters height.

This proposal brought to light the state's past and present broadcast allocation problems and sought to address to some degree the increasing problem of New Jersey markets outgrowing the signal of the Class A FM stations designed to cover them. This problem is particularly acute in New Jersey, where most of the state receives most of its local, New Jersey-oriented FM radio service from Class A stations. The history of allocations shortchanged New Jersey.

The Commission chose to dismiss the proposal without comment. What kind of relief is the Commission prepared to offer Class A broadcasters in New Jersey? Does the Commission agree that the allocation of radio stations historically shortchanged New Jersey? What avenues are available to the New Jersey broadcasters to enable them to reach their growing audiences?

Answer: The New Jersey Class A Broadcasters Association's proposal to increase the allowable maximum Class A operating power was filed in a recently concluded proceeding in MM Docket No. 86-144, In the Matter of FM Allocation Rules of Part 73, Subpart B, FM Broadcast Stations. Because the Commission initiated the Docket 86-144 proceeding for the limited purpose of seeking comments on proposals to adjust and review inconsistencies in certain of its FM technical rules in light of its action in Docket 80-90, proposals such as that by New Jersey Class A Broadcasters Association for blanket increases were not contemplated and thus the Commission found the proposal to be outside the scope of the proceeding. Further, it was deemed inappropriate to decide such proposals because the Commission lacked an adequate record on which to base action. Finally, the Commission's staff also determined that bilateral agreements with Canada and with Mexico would be required in order to implement such increases.

It is anticipated that this proposal may be refiled at some future date and will contain further engineering analyses of the effect such upgrades will have on the coverage of other existing stations. In addition, as noted, extensive international negotiations would be necessary in order to provide Class A power increases to the Canadian and Mexican border areas.

As for the history of New Jersey allocations and future solutions, the Commission has been aware of the concern that there are insufficient local outlets for the residents of New Jersey. The Commission continues to seek to provide additional outlets for New Jersey and all other states.

MINORITY BROADCASTERS

Question: At the hearing, you stated that the court in Steel v. FCC, 770 F.2d 1192 (D.C. Cir. 1985) raised questions about the basis for race-based preferences in the award of broadcasting licenses. The Circuit stated in that case: "Under our decisions, the Commission's authority to adopt minority preferences even apart from the lottery process -- at least where such preferences are tied to minority participation in the management of broadcast facilities -- is clear." 770 F.2d at 1196. In light of that statement, what is the basis for the FCC to expand its inquiry to include an inquiry of its authority in the area of minority preferences as opposed to gender-based preferences?

Answer: In Steele, a divided panel of the D.C. Circuit Court of Appeals in throwing out the Commission's women's preference policy criticized the assumptions underlying the FCC's minority preference policy. This was because the women's preference scheme was a direct outgrowth of the Commission's minority preference policy, whose origins can be traced back to 1972 and the TV-9 case.

In TV-9, the Commission refused to award a minority preference without a demonstration that the proposed minority ownership would enhance program diversity. The D.C. Circuit reversed the Commission, and told the FCC that it should grant a preference to the minority owner based solely on the assumption that minority ownership and participation would lead to program diversity. No factual record was developed on the issue. Since then, the Commission has followed the Court's mandate in TV-9. Preferences are now routinely granted to minorities without requiring that a nexus to program diversity be shown. In 1978, the FCC's Review Board extended the minority preference policy to females on the theory that the logic of TV-9 applied equally to women. Thus, a nexus to program diversity again was assumed without conducting a factual inquiry. The Commission acquiesced to that extension of the female preference policy in subsequent cases. But until the Steele court criticized the assumptions underlying the minority and female preference policies neither the Commission nor the Board ever discussed or examined further the assumptions upon which the policy was based.

In summation, the basis for the Commission to expand its inquiry on gender-based preference to include an inquiry into minority-based preferences is that the assumptions and premises underlying gender-based preferences are the same assumptions and premises upon which the minority preference rests. Thus, on examination of the assumption and premises underlying gender-based preferences necessarily involves an examination of minority-based preferences.

Questions: **Specifically, how does the Commission plan to examine whether a "nexus" exists between minority ownership and diversity in programming? Does the commission plan to examine the content of programming? How would such an examination differ from the kind of judgements that the Commission believed violated the First Amendment in the Fairness Report?**

Answer: In its brief submitted to the Steele court, the Commission concluded that racial and gender classifications may not be based solely on the assumption that integrated minority/female owners will result in increased content diversity. The Commission concluded, therefore, that an inquiry should be conducted to reexamine the legal and factual predicates of our policies. To that end, the Commission issued a Notice of Inquiry reexamining the FCC's comparative licensing, distress sales, and tax certificate policies premised on racial, ethnic or gender classifications. As part of that inquiry, the Commission sought to determine whether there is a nexus between minority/female ownership and viewpoint diversity, and whether such ownership is necessary to achieve that goal. The Commission developed a series of questions designed to elicit evidence on the nexus issue.

The following list of questions from the Notice of Inquiry deal specifically with programming:

> "To what extent is the relationship between integrated minority/female ownership and increased availability of minority/female perspectives and programming empirically demonstrable? Is there, for example, a demonstrable difference in the amount or nature of minority-oriented programming broadcast by minority-owned stations and that broadcast by nonminority-owned stations under similar market conditions, such as where there is a

significant minority population? How should minority or female-oriented programming be defined for purposes of this analysis? Do these definitions apply to all media?"

While the foregoing list of questions does involve an examination of programming, that inquiry is a one-time study designed to elicit empirical evidence to determine whether there is a nexus between minority/female ownership and viewpoint diversity as required by the Constitution and to focus attention on the effectiveness of the minority/female ownership policies in achieving their intended goals. On the other hand, the Fairness Doctrine, which requires that broadcast stations (1) broadcast discussion of the most important controversial issues in the station's coverage area; and (2) provide reasonable opportunity for the presentation of contrasting views on these issues, limits the First Amendment rights of the broadcasters based upon some notion of fairness which necessarily involves continuing government oversight and intrusion into the editorial judgment of broadcasters.

Question: If the Commission determines that the distress sale policy is unconstitutional, will it apply its decision prospectively? What will be the fate of the WHCT-TV license? Has the Commission considered the problems that would result from retroactive application?

Answer: No decision has been made to date with respect to the general question of the constitutionality of the distress sale policy since it is the subject matter of the pending Inquiry. In addition, no consideration has been given up to this point to applying any decision retroactively in a manner that would reopen proceedings already concluded. Generally speaking, if changes in the policy are adopted, they would be applied prospectively, subject only to applicable constitutional requirements.

As a consequence of the Court's remand of the Shurberg (WHCT) case, further input from the parties to the case has been sought as to what further procedural or substantive steps should be taken to resolve the proceeding. Because this is a restricted adjudicatory proceeding and because no decisions have been made as to how to respond to the Court's remand order, it would not be appropriate to comment further at this point on the likely final disposition of the WHCT-TV license.

AM AND DAYTIME BROADCASTERS

Question: Last spring, the FCC issued a Report on the Status of the AM Broadcast Rules. One section of the report referred to the modifications of rules which authorized post-sunset operation of daytime-only stations. The report stated:

"While the new rule has brought substantial benefits to both stations and listeners, they fall short of removing the distinction between daytime-only and full-time stations. Nor does such operation necessarily represent the furthest step the Commission could take consistent with its interference protection standards." [emphasis added]

The report went on to discuss the use of the same computer resources which were used in the post-sunset study to determine the power which could be used under full nighttime conditions without causing interference.

What steps has the FCC taken since the publication of this report to study and recommend power levels under full nighttime conditions? If nothing has been done, why not? What future plans does the FCC have to address this issue?

Answer: On January 17, 1987, the Mass Media Bureau presented a detailed report to the Commission summarizing the comments received from the industry

that were filed in response to the Report on the Status of the AM Broadcast Rules. The industry comments expressed general support for Commission action to permit daytime-only stations to operate fulltime during nighttime hours, with power reduced as necessary to protect existing fulltime stations. A Public Notice (see below) was released by the Commission summarizing current and future actions being taken as an outgrowth of the Report. One of the planned actions identified was initiation of a proceeding proposing to permit fulltime operation by daytime-only stations. The staff of the Mass Media Bureau has been actively working on the details of a specific proposal which should be considered by the Commission sometime this spring.

Question: The same report makes reference to changing the skywave protection standards. One alternative mentioned is the removal of standards, which would permit interference to be calculated on the basis of groundwave protection. While the report states that "(T)he exact dimensions of this situation cannot be known without further study", it goes on to say that "such study does appear to have merit."

Has the FCC taken any actions to study the issue of changing or removing skywave protection standards? What can we expect to see in the near future regarding further research into the problem?

Answer: The issue of protection standards for skywave service has received exhaustive review in the past, most recently in Docket 20642 which was concluded in 1980 after years of study. The Report, however, took note of the numerous broadcast stations that have been added since then which has reduced populations dependent at night upon skywave service, particularly east of the Mississippi River. In these circumstances, the Report invited comments regarding changes to protection standards for skywave service. Comments filed in response were mixed with support on the one hand and strong opposition on the other. Clearly, this remains a contentious issue. The Commission has concluded that action on this issue should be deferred in order that limited staff resources can be concentrated on those issues that will lead to immediate improvements for the industry and public. It is anticipated, however, that some technical issues related to skywave protection standards will be addressed in a Notice of Inquiry in the near future which is designed to generally address the technical standards being applied to the AM broadcasting service.

Question: What is the status of efforts to expand the AM band? Does the Commission believe that daytimers should receive a preference if they apply for these new stations?

Answer: The AM band was extended internationally to 1705 kHz in 1979 at the ITU World Administrative Radio Conference (WARC 79). In providing the spectrum reallocation, it was specified, however, that use of the new band for broadcasting could not be made until a broadcasting plan was developed at a regional administrative conference. The First Session of such a conference was held in 1986 to develop the technical criteria for planning as well as the planning method. The Second Session of the Conference will be held in early 1988 to develop the plan as well as the implementation dates for the plan. It is anticipated that implementation for the broadcasting plan will be around 1990. In two earlier Notices of Inquiry, the FCC addressed important domestic issues related to implementing the new AM band, and an additional Notice of Inquiry is planned in the near future which will be designed to inquire further into U.S. implementation of the band. Several options for implementing the new band have been identified, including some type of preference for daytime-only stations. Another option would be to permit daytime-only stations to simulcast during daytime hours on new facilities in the new band in order to reduce operating costs until receiver availability and listenership obviate the need for such steps.

PUBLIC NOTICE

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January 15, 1987

COMMISSION INITIATES MAJOR REVIEW OF AM BROADCAST RULES

On April 3, 1986, the Mass Media Bureau issued its Report on the Status of the AM Broadcasting Rules. The Report, the first such comprehensive regulatory review in sixty years, examined the far reaching changes that have taken place in AM broadcasting and in the audio marketplace as a whole. Recognizing that the future of AM broadcasting rests on the entrepreneurial initiative of broadcasters, the Report identified possible steps to remove governmental intrusion and thereby free such licensee initiative. Many parties responded to the invitation for public comment, including more than fifty parties which filed extensive comments covering every issue raised and provided the basis for establishing the priorities for future action.

Based on the Report and the comments which were filed, the Commission is considering taking action in certain areas. The tentative course of action outlined below does not address all issues raised in the Report or all potential areas for Commission consideration. It does, however, present a blueprint for Commission review of certain broadcast rules.

A series of present and possible future steps have been identified. Some of these steps have been undertaken by Commission action today, and some we view as longer term initiatives. Still other potential actions would seem to be more properly deferred pending the outcome of other proceedings or studies. Interested parties are invited to develop information in these deferred areas in order to assist the FCC in formulating future actions to be pursued.

Near Term Actions:

* A proceeding on synchronous transmitters is being initiated today to develop a technical record on which to evaluate the most effective use of this technique to improve AM coverage. Comment will be sought on any necessary modification of technical or ownership rules if synchronous operation is to be authorized on a regular basis.

* A Notice of Proposed Rule Making already has been issued to relax or eliminate the main studio and program origination rules. Such changes were discussed in the Report and were widely supported in the comments.

* A proceeding is being initiated today to examine the "duopoly" rule along with other pertinent multiple ownership issues.

* The interference limits for RF lighting devices are currently being considered in General Docket No. 83-806. When resources permit, the Commission will consider whether it wishes to issue a Notice of Inquiry concerning incidental radiation devices (such as appliances and electric motors) as sources of radio interference.

Longer-Term Actions under consideration:

* Technical parameters relating to interference protection. This includes protection ratios, protected contours, RF bandwidth limitations and calculation methodologies. Based on the results of this proceeding future action may be possible to relieve current restrictions on station power.

* Permitting existing daytime-only stations to operate at night if necessary using a power level below the current minimum. Many of these daytime-only stations are unable to meet the power minimum without causing objectionable interference to existing full-time stations.

Deferred Subjects:

- Action on new antenna designs needs to be deferred until sufficient test data has been obtained. In the meantime, the Commission will continue to encourage the development of new antenna designs through the issuance of experimental authorizations for their study and testing.

- Changes in channel and station classification and current limitations on station power will be deferred pending resolution of the issues in the technical parameters proceeding. At that point, it will be possible to evaluate changes in this area.

- Interest has been expressed in the development of a uniform standard for AM stereo. This subject is being deferred, however, pending completion of a study being conducted by NTIA on the functioning of the marketplace in the selection of an AM stereo system.

For further information on these matters, please contact: Steve Selwyn of the Mass Media Bureau at (202) 254-3394.

Action by the Commission January 15, 1987. Chairman Fowler, Commissioners Quello, Dawson, Patrick and Dennis.

CHILDREN'S TELEVISION

Question: Please describe the circumstances under which permission was sought, and the Commission gave approval for the broadcasting of inaudible signals designed to be used in conjunction with so-called "interactive toys"? Does the Commission believe that any public interest considerations are implicated by the use of this technology?

Answer: The Commission's Mass Media Bureau in recent months has dealt with the issue of "interactive toys" in three letters. First, in a letter dated August 5, 1986, the staff concluded that no Commission rule or policy would be violated by the broadcast of a television program containing audio tones, indistinguishable from the sounds associated with the story line, that would activate and control toy figurines. In a second letter dated October 10, 1986, the staff found that the activation of toys through the process of putting a small white square in the lower right-hand corner of the video picture not integrated into the program conflicted with a Public Notice (22 FCC 2d 779 (1979)) where the Commission concluded that where such signalling results in impaired broadcast service, it should not take place without prior FCC authorization to be granted only upon a showing that there were no alternatives for accomplishing the signalling that would not degrade the broadcast signal. In the third letter of October 30, 1986, the staff similarly concluded that no Commission rule or policy would be violated by a television program activating toys through visual signals integrated into the story line.

The three letters referred to above involved a review of the technical question of whether degraded picture or program quality would result. The broader policy question of whether such programming is desirable was not addressed. With respect to that broader policy question, the Commission's objective generally is to create the maximum number of programming choices to select from and not to make choices for the public unless there is some clear indication of injury otherwise resulting. Diversity of choice in programming would not be increased by rejecting the possibility of interactive programming absent evidence that it causes injury either to the public or to the broadcast service as a whole.

On February 9, 1987, Action for Children's Television filed a "Petition for Declaratory Ruling or Notice of Inquiry" asking the Commission to conclude that programs that interact with toys are program length commercials and prohibit them or, in the alternative if the Commission declines to prohibit such programs, to require that the programs be interspersed with announcements informing children that the program is also an effort to promote the sale of the products seen or used in the program. This petition is presently pending before the Commission.

QUESTIONS SUBMITTED BY SENATOR RUDMAN

Question: The Commission is proposing to reduce the accounting and audits effect of eliminating 1 of 6 audit teams available to ensure compliance with Commission regulations affecting common carriers such as AT&T and the Bell operating companies. No justification was given for this decrease other than a sentence in the testimony that indicates that regulated phone companies will provide the Commission with independent audits of their operations. Given the complexity and specialized nature of telephone regulations, are you confident independent audits will be as accurate as those performed by Commission staff? Will the decrease in staff prevent adequate verification of these independent audits?

FOLLOWUP: Please provide for the record the audits performed in 1985 and the cost savings to the public and to customers as a result of these audits. Also, indicate the audits that would not have occurred had the reduction in audit staff been implemented in that year. Finally, provide a list of on-going audits in 1986.

Answer: We have no reason to believe that the audits by the independent auditors will not meet the same high level of accuracy required of Commission auditors. We plan, however, to review the work of the independent auditors to ensure compliance with generally accepted auditing standards.

The decrease in staff will not prevent adequate verification of the independent audits. We anticipate reviewing all of these audits, as well as requiring follow-up audits by the independent auditors or by our own staff in areas where we note problems.

The following is a list of the audits performed in 1985:

1) Audit of joint costs incurred by parent holding company and passed to regulated telephone carriers:

Ameritech
Bell South
NYNEX
Southwestern
Pactel
Bell Atlantic

2) Audit of joint costs incurred by telephone carrier and passed to parent and other nonregulated subsidaries.

Mountain States

3) Audits of ~~Dial~~-tone referral and Central Ordering Group (COG)

Ameritech (Illinois Bell)
Bell South (Southern Bell and South Central Bell)
Southwestern
Pactel (Pacific)
Bell Atlantic (Bell of PA)
Mountain States
NYNEX (New York Tel.)

4) Audits of Sales Agency Commissions paid by the telepone carrier to the CPE subsidary.

Illinois Bell
New York Tel.

5) Audits of Equal Access/Network Reconfiguration Costs

C&P of DC
Southwestern Bell

Our audits focus on whether the carriers have properly implemented the Commission's rules and policies. While a carrier's failure to comply with our rules and policies could impose additional costs on rate-payers, many of our rules and policies are also designed to prevent unfair practices which would undermine competition. Violation of rules designed to ensure a level playing field for competition clearly injure consumers, but it is very difficult to assign a dollar value to such violations. The audit program also encourages compliance by the carriers since they are aware that non-compliance can be detected. Again, it is very difficult to assign a monetary value to this. While we believe that FCC audits or audits by independent auditors whose work will be subject to FCC review is important, it is very difficult to assign a dollar value to the benefits produced by these activities.

In retrospect, it is very difficult to determine the precise impact on our 1985 audit program, had the staff reduction been implemented in that year. It is possible that we would have had to reduce the number of companies audited. However, there is not necessarily a direct correlation between the loss of audit staff and the number of audits. It might well have been possible to mainstream the same number of audits by reducing the other related work assigned to the audit staff.

The following is a list of the 1986 audits.

a) Audits of joint costs passed by the telephone company to the parent and nonregulated subsidaries:

Southern Bell
Pacific Northwest Bell
Illinois Bell
New England Tel.

b) Audit of joint costs passed by parent to telephone companies and other subsidaries.

GTE Headquarters

c) Audit of access costs:

GTE of Florida
GTE of the Northwest

d) Audits of Sales Agency program operating expenses:

New York Telephone Co.

e) Audit of Billing & Collecting Expense:

New York Telephone Co.

Question: The future of the television industry seems to lie with high density television broadcasting, or HDTV. HDTV provides a very clear, high resolution picture and will likely become operational in the next few years, at least for video cassette recorders.

The broadcast industry is understandably interested in maintaining an adequate spectrum allocation for this service in the future. Apparently there is some thought to reserving a portion of the spectrum already

reserved for direct broadcast satellite service; however, the industry is interested in the UHF spectrum currently allocated for television use.

At the present time the Commission is considering a reallocation of the UHF spectrum for land mobile use. While I certainly want to protect land mobile radio, especially that used for public safety and law enforcement purposes, is there a conflict between the reallocation of this spectrum and the future spectrum needs of HDTV?

FOLLOWUP: The Commission has received a Petition for Special Relief to delay action on the UHF reallocation pending an examination of the spectrum needs of HDTV. How do you intend to respond to this petition?

Answer: In proposing to reallocate UHF-TV spectrum for land mobile use, the Commission considered the spectrum needs of both the broadcast service and the land mobile service. In making this proposal, we attempted to strike a balance between private land mobile radio needs and impact on broadcast services, including innovative services such as High Definition Television (HDTV). Ideally, of course, we would prefer not to affect any broadcast services and our proposal was structured to minimize this impact. HDTV is an evolving technology that is currently being developed by a number of manufacturers. Recently, a Japanese prototype system, which requires a minimum of eight megahertz of spectrum per channel, was demonstrated in Washington, D.C. Since our current television assignments are based on six megahertz channels, it is not clear, at this time, how or if this HDTV system could be implemented in existing VHF or UHF spectrum.

We plan to deny the Petition for Special Relief. The needs of the land mobile service in major urban areas are too pressing for the Commission to delay action in the reallocation proceeding. Further; HDTV spectrum requirements cannot be determined until the technology to be used is decided. We plan to initiate an inquiry proceeding in the near future to investigate advanced TV technologies and the impact of their introduction.

Question: Last August the Commission adopted new regulations to require cable companies to carry certain local television stations as a modification of the must-carry rules that were struck down by the Quincy Cable TV case. As a result of these new rules, cable operators are required to carry a lower number of public television stations than under previous regulations -- in many circumstances only 1 station for those cable systems with less than 54 channels, and not less than 2 for cable systems with 54 or more channels. According to the National Association of Public Television Stations, over 2 million cable subscribers have lost access to local public television stations due to reductions in service by local cable systems.

In response, a Petition for Reconsideration has been filed to reinstate mandated cable carriage for most public broadcasting stations. Do you believe this petition has merit, and how do you believe the Commission should respond.

Answer: The Commission has received several petitions requesting changes in the interim must carry rule provisions for non-commercial educational stations. We have not yet reached a decision regarding the arguments raised therein. The staff is presently analyzing these petitions, and a decision is expected this spring. It should be noted that the Commission's decision, in attempting to respond to the constitutional requirements set forth in the Quincy court decision, explicitly anticipated that some cable systems would exercise the discretion accorded them by the First Amendment to drop some local broadcast signals and replace such signals with non-broadcast services judged to be more responsive to the interests of local cable subscribers. Although the rules adopted accord significantly greater carriage rights to local public stations than to commercial stations, it was to be anticipated that some signals, including particularly some with largely duplicative programming, would not receive cable carriage in some situations. Whether

there are ways to improve on the existing rules is a matter that will be considered in conjunction with the pending reconsideration petitions. It should be noted that the accuracy of data supplied by the National Association of Public Television Stations has been sharply challenged by other parties to the proceeding.

Question: In the 1987 appropriation language for the FCC, the Congress provided the Commission with the authority to recover the costs of collecting licensing fees from the fees themselves. The Commission is proposing to delete this language in FY 1988 and to fund the program through direct appropriations. Since the Commission expects to collect $36 million for the Treasury from these fees in FY 1988, couldn't a modest amount of approximately $550,000 be retained to operate the program?

Answer: The Office of Management and Budget (OMB) advised the Commission that receipts collected as a result of the Fee Program were proprietary and therefore should go directly to the U. S. Treasury.

If Congress decides to allow the Commission to continue using receipts collected to offset the cost of the Fee Program, we would still require authority for the additional 35 full-time permanent positions. Also, our latest estimates of the cost in FY 1988 of collecting fees is $755,000. This includes the costs associated with the FY 1987 pay raise and the new Federal Employees Retirement System.

Question: Domestic travel is projected to cost the Commission $589,000 in FY 1987. An increase of $242,000 is proposed in FY 1988. Given the fact that airline ticket prices continue to remain relatively low, why is such a large increase being requested? If the Commission expects travel costs to increase so dramatically, why is an increase not requested for travel for members of the Federal-State Joint Telecommunications Board?

Answer: $138,000 of the additional funds is requested to cover the increased per diem rates implemented by GSA's Federal Travel Regulations issued in July, 1986. $103,000 is requested to bring the funding level for domestic travel up to the level requested for FY 1987. An additional $1,000 is to support the fee collection program.

The FY 1986 expenditure for Joint Board travel was $42,000. We believe that the $100,000 planned for FY 1988 will be adequate.

Question: On February 2 of this year the Justice Department filed recommendations with U.S. District Judge Harold Greene that the seven Bell Operating Companies be allowed to enter a variety of new businesses from which they are now barred. These include information services, manufacturing and marketing of telephone and telecommunications equipment, and non-telecommunications businesses. In addition, the individual Bell companies would be allowed to offer long distance service between or within areas in which that Bell company does not provide local telephone service.

Needless to say, this is a very controversial proposal. I guess it also goes without saying that you support the Administration's proposal.

Although Senator Dole has not reintroduced his bill to transfer regulatory authority for this area to the FCC, if Judge Greene does not accept the recommendations of the Justice Department, would you support legislation to implement their proposals?

Answer: The Justice Department Report, submitted in fulfillment of its obligation to review on a triennial basis the continuing need for decree restrictions, contains several tentative conclusions. The report is subject to public comment, after which the Justice Department, presumably, would file a motion with the Court seeking specific modifications to the MFJ. On a preliminary basis, we support the Justice Department's tentative,

procompetitive recommendations for removal of the absolute bar on RBOC entry into certain markets. We intend to provide a more detailed response to the report when we file amicus comments in that proceeding. Under the Justice Department approach, the RBOCs would not automatically be allowed to enter such markets. Rather, they would first have to demonstrate that such entry would be in the public interest, and to satisfy any conditions and safeguards established by this Commission. It is our belief that the Commission, and not the Court, has the appropriate expertise and resources to make these determinations. Furthermore, we believe that these decisions should be made based on the broad public interest standard applied by this Commission, rather than based merely upon anti-trust concerns. We would, if necessary, support legislation designed to give the Commission authority to reevaluate the consent decree restrictions, pursuant to a broad public interest standard.

Question: The FCC budget justification (p. 106) states that Commission field operations staff "supplied over 1,798 estimated positions to the Coast Guard in their drug interdiction activities." How and where does this direction-finding occur? Does the staff respond to specific requests from the Coast Guard or do they monitor communications for possible drug-related activities?

Answer: Direction-finding for the Coast Guard is done by the high frequency (hf) direction-finding network which consists of thirteen field offices throughout the country and Puerto Rico. The fixes are supplied in response to specific requests from the Coast Guard under a reimbursable agreement.

Questions Submitted by Senator Weicker

Question: Chairman Fowler, I am concerned about the possible short-sightedness of a proposal by the Federal Communications Commission to give part of the UHF television channels to land mobile radio services in eight television markets. First, I am told that the private land mobile radio users were allocated a new spectrum block in 1986, which has not been fully used. Further, I am told that reallocation of the UHF spectrum would not only cause interference to existing UHF TV stations and prevent some new stations from signing on, but it may also preclude TV broadcasters from being able to compete effectively by providing high-definition services. In other words, the FCC's decision today may hamper TV broadcasters options for competition in the future. Is the FCC considering all of the ramifications of this proposal?

Answer: The new allocation of spectrum to the private land mobile service made in 1986 will go a long way toward meeting the spectrum requirements of this service. However, the private land mobile requirement in some major urban areas exceeds the spectrum made available by this allocation, even though we are requiring the use of spectrum saving technologies. The Commission proposal to allow land mobile operations in UHF-TV spectrum in eight major urban areas will help to make up this spectrum deficiency.

In considering the ramifications of this proposal the Commission is weighing the impact of slightly increased potential of interference to TV stations against significant increases in land mobile service. It is also considering the impact on unused TV allotments as well as possible future spectrum needs for provision of high definition television service. The proposal was structured to minimize the impact on broadcast services. The views of both the broadcast community and land mobile community will be considered carefully before a decision on this proposal is made.

Questions Submitted by Senator Domenici

Question: Mr. Chairman, for the past three years, public television stations have been precluded from filing for translator needs, in their PTFP grant applications. These translators fill an important need in rural states such as New Mexico.

I understand the Commission intends to provide a window of opportunity to file such requests. I would like to know when the Commission will be in a position to provide the window, so that the low-power television stations might be in a position to act before FY 87 PTFP awards in July.

Answer: It has been the Commission's goal from the inception of the low power television service to provide low power television and translator service in the most expeditious manner possible. In view of this goal, the freeze on the acceptance of all new and major change applications was initiated in September 1983. By devoting considerable resources, the Commission has been able to reduce a FY 1984 backlog of 37,000 applications to under 10,000 applications at this time. As a result, we have been able to authorize over 2,000 low power television stations and increase the number of television translator stations to almost 6,000. Additionally, we hold lottery sessions each month in order to select construction permit holders from among mutually exclusive applicants.

On February 2, 1987, the Commission adopted low power television and television translator rules which provide for a new system of application filing "windows." These window procedures will make it possible for the staff to process the applications received during each window more quickly. For example, the rules provide for a "cap" of five new applications that can be filed by any one applicant during a specific window. Therefore, we do not anticipate a repetition of the large numbers of applications. Filing windows will be opened for a specified period of time and will be announced by public notice 30 days in advance.

The Commission expects to lift the filing freeze and begin accepting applications using the new filing window procedures in the early summer of 1987. Applications for new or major change low power television or television translator stations which are filed at that time will be processed as expeditiously as possible.

ADDITIONAL COMMITTEE QUESTIONS

Question: The budget estimates table titled "FY 1988 Uncontrollable Cost Increases" (page 3) cites an increase of $236,000 in the cost of telephone services.

a) Does this indicate that FCC is unable to reap the benefit of the competition and lower prices, especially in the areas of distance service and telephone equipment? When will telephone costs level off or decrease for FCC?

b) What proportion of total telephone costs are devoted to the rental and/or purchase of telephone equipment and towards local, as well as long distance service? Give dollar amounts of breakdown and total.

c) Historically have cost increases been related more to rising prices or to rising usage of telecommunications by FCC?

d) Page 12 of the estimates shows a $10,000 net programmatic increase in the "departmental telephones" account. Please explain the reason for this change.

Answer:

a) No, this does not indicate a failure to reap the benefits of competition and lower prices. $205,000 of the increase is based on GSA's estimate of FCC use of the Federal Telecommunications System (FTS). GSA is required by statute to recover all of the costs for this service from billings to user agencies. During FY 1986 they discovered a deficiency with the billing rates for FTS and had to collect additional amounts from user agencies toward the end of that year. Subsequently, they raised the projected cost per minute for both FY 1987 and FY 1988. The rates for FY 1988 are projected at $.442 per minute, up from $.362 in FY 1986. If FTS costs stabilize, telephone cost should level off in FY 1989.

b) In the FY 1988 budget, $1,966,000 is requested for telephone services. Of this amount, approximately 36% ($701,000) is for local and miscellaneous services for FCC's headquarters operations, 17% ($355,000) is for local and miscellaneous services of FCC's field operations, and 47% ($930,000) is for FTS services (long distance). The FCC owns the equipment used at the headquarters locations and by the end of FY 1987 will also own all its field telephone systems. There is no funding requested for rental or purchase of telephone equipment in the FY 1988 budget request.

c) Cost increases have been due primarily to rising FTS costs per minute. These are set by GSA to cover their overhead and equipment costs of providing long distance service to a decreasing number of agencies. The FCC has made a concerted effort over the past three years to control these increasing costs by closely monitoring the FTS usage and requiring employees to pay for unoffical use of FTS.

d) This programmatic increase is to cover the cost of phone service for the new Fee Collection Program.

Question: What is the status of your 1988 authorizing legislation? Does the authorization propose/include any activities not planned for the 1988 budget proposal?

Answer: The FCC does not have an authorization for FY 1988. The only item which might be included in authorizing legislation which would impact on our budget requirements is spectrum auctions.

Question: Page 14 of the estimates shows a $17,000 net programmatic increase in the "security services" account. Please explain the reason for the increase since FCC has been reducing the amount of leased space and buildings used. What types of services and which buildings are involved?

Answer: The FCC is implementing the Fee Collection Program on April 1, 1987. The additional security will ensure adequate protection for cash collections in both the Gettysburg and Washington Fee Sections.

Question: The summary table on page 17 of the 1988 budget estimates shows a $3.6 million or 66 percent increase for retirement benefits. Why is this increase so large? Will this level of increase also occur in FY 1989?

Answer: This increase represents our best estimate of the additional agency cost in FY 1988 of the new Federal Employee Retirement System (FERS). We need an additional $3.4 million in FY 1988 over and above the supplemental funding for FERS in FY 1987 ($1.2 million). Approximately $200,000 is required to annualize the benefits associated with the FY 1987 pay raise and for funding the benefits associated with the new positions requested for FY 1988. We do not expect the same level of increase to occur in FY 1989. We estimate we will need an additional $724,000 in FY 1989 for FERS.

Question: The budget states on page ii that the collection of user fees will total $30,000,000 in FY 1988 and in subsequent years. What internal controls are in place to ensure this program is properly administered?

Answer: The Commission has spent much of the last year developing procedures to ensure that the Fee Collection Program is administered in an effective and efficient manner. The program will be administered as a part of the Commission's overall Financial Management effort. The Internal Review and Security Division will continue to monitor the adequacy of our financial management procedures. Additionally, we have worked closely with the Treasury Department in implementing a "lock-box" bank to accept the funds for the Gettysburg operation. We are making every effort to ensure compliance with GAO, OMB and Treasury policies and procedures as we develop and implement this program.

Question: We understand lease for your headquarters building expires on 9/30/87.

a) Does the FY 1988 budget include sufficient funds to cover the increases that a new lease will require?

b) Are funds available for relocation in case the lessor does not negotiate a new lease with FCC? If not, what would it cost to relocate?

Answer:

a) No additional funds are included in this budget to cover rate increases. GSA has identified the FCC as a candidate for consolidation in the FY 1989 time period. We have worked closely with GSA and OMB to ensure that any move of the FCC does not negatively impact on our employees or on the public we serve. Staff at GSA have indicated that they plan to renew the current lease at 1919 M Street until the expiration of the lease at 2025 M Street (which expires in 1989).

b) No relocation funds are included in this budget since we were advised by GSA that we would not relocate until FY 1989. We are currently working with them to identify the costs of a consolidation in FY 1989 which will be included in the FY 1989 Budget Request to OMB and Congress.

Common Carrier Bureau

Question: What is the status of the Bureau's plan to automate financial

reporting by common carriers under the revised Uniform System of Accounts and other FCC requirements?

a) Why did the FCC cancel a Request for Proposal (RFP) in September 1986 that would have acquired the computer system needed to process the data submitted by the carriers?

b) Will another RFP be issued soon to establish the automated financial reporting system contemplated in FCC's Notice of Proposed Rulemaking in Docket 86-182, released on May 7, 1986? Describe the hardware and software now planned for the system.

c) What funding has been approved for the automated system in the FY 1987 budget or proposed for it in the 1988 budget estimates? How does acquisition of this system fit into FCC's Information Technology Program on page 139 of estimates?

d) When does FCC plan to decide on the proposals made in Docket 86-182 regarding the scope and form of data to be reported to FCC? What will the data be used for and what staff will be involved?

e) Have the various divisions of the bureau agreed on what data is to be required and how it will be used? Please provide a listing of the data to be required and FCC's authority to collect this data.

Answer: The status of the Bureau's plan to automate financial reporting by common carriers is fully discussed by the responses below.

a) Only one vendor responded to the RFP, and that response fell seriously short of our specifications. Because of the inadequate response to the RFP and in light of the feedback we received in the NPRM in CC Docket 86-182, we reevaluated our needs and determined that we could better satisfy these needs, at less cost, and with a more distributed processing structure than that specified in the RFP. As a result the RFP was cancelled.

b) We do not plan to issue a new RFP because the distributed processing system which we now have in mind can be put together basically with off-the-shelf hardware and software; as a result, we can utilize GSA schedule to find the best possible price without the need for a formal RFP. In addition, the time involved in acquiring the assets through the RFP process would unduly delay the implementation of our mechanized system. Although final decisions on hardware and software have not been made, our current plans call for the following hardware: one host multiuser microcomputer with a UNIX operating system and 32 ports, ten CRT terminals, twelve personal computers, and high speed telecommunications linking the host to the terminals and the personal computers. We plan to procure various off-the-shelf software packages for both the host microcomputer and personal computers that will enable us to administer and process the large amount of carrier data involved. Among the software packages we have in mind are: data base management programs, spreadsheets, various high-level programming languages (e.g., cobol, Fortran), and word processors.

c) At the beginning of FY 1987 we allocated $302,000 for the ARMIS. Originally, we had a total of $948,000 budgeted for ARMIS. However, a lower appropriation and a longer planning and implementation schedule has lowered the amount that will be expended this fiscal year. Our plans called for $160,000 for outside consulting and $142,000 for automated data processing hardware. Our current plans call for hardware and software expenditures of $235,000 in FY 1987. We also plan to expend $67,000 for outside consulting in FY 1987 to provide for such tasks as training and programming.

In FY 1988 we have the base budget of $948,000 available for ARMIS. Our preliminary plans call for an additional host microcomputer, additional

terminals, personal computers, communications facilities and whatever consulting and training services are required.

The mechanized system we plan to implement is part of the Information Management Network referred to on page 139 of our estimates. As such, the proposed system architecture is consistent with the trend toward the use of distributed processing concepts, where possible.

d) We plan to issue an order establishing the scope and form of the carrier data requirements in May. The data will be used primarily by our Accounting & Audits, Industry Analysis, and Tariff Division staff as a tool for better carrying out our regulatory responsibilities. Initially, the most important regulatory use of the new mechanized systems will be as follows: (1) Tariff Division personnel will use the system to help carry out its Tariff Review Plan, which is used to establish and revise interstate access tariffs; (2) the Industry Analysis Division will use the system for its rate of return monitoring and enforcement program; (3) the Accounting and Audits Division will use the system to enhance its depreciation rate review process and its auditing functions.

e) An initial set of data base requirements has already been established, although the ultimate requirements are still being discussed. These requirements will be finalized in our report and order in CC Docket No. 86-182.

The following table lists the data requirements that we have already determined to be necessary along with our statutory authority for collecting the data:

	AUTHORITY	
DATA	COMMUNICATIONS ACT	FCC RULES AND ORDERS
Accounting data related to Uniform System of Accounts	Sections 219 and 220	Parts 31,32 1.785 and 43.21
Data related to allocation of joint costs between regulated and nonregulated activities	Sections 219 and 220	CC Docket No. 86-111 Report & Order
Depreciation data	Sections 219 and 220	Parts 1.787 and 43.43
Data related to allocation of costs between state and interstate jurisdiction	Sections 219 and 220	Part 67
Rate of Return	Sections 219 and 220	Parts 1.795 and 65.600
Tariff Review Plan	Sections 219 and 220	Part 61.38

Question: In 1986 FCC removed requirements under which telephone companies conducted activities in competitive markets through separate subsidiares. Instead the Commission decided to rely on a system of non-structural safeguards, such as accounting rules, to prevent the subsidy of competitive enterprises with revenue from ratepayers of the companies' monopoly telephone service. In paragraph 243 of the December 1986 decision in Docket

86-111 on accounting rules, FCC states that it plans an "intensified" audit and oversight program to guard against such cross-subsidy.

a) Notwithstanding the fact that FCC also plans to rely on independent CPAs to audit the companies, how can FCC reconcile the apparent contradiction between requesting a cutback of its auditing staff by three persons on page 18 of the estimates, while stating that it plans an intensified program of audits?

b) Although the Commission's decision establishing cost accounting rules (Docket 86-111, approved December 23, 1987) calls for independent, company-funded attestation audits of the mew procedures, will not the FCC staff workload in monitoring these procedures be greatly increased?

c) How will the planned cutback affect FCC's other audit responsibilities, in terms of number of companies audited each year, and the frequency of these audits? Please provide for the record the Common Carrier Bureau's plan of staff audits for FY 1987 and FY 1988, including the audit objectives, companies to be audited, locations, and staff resources involved.

d) Please submit FCC's plan to monitor the results of independent audits and to identify problem areas that warrant staff investigation of FCC action. Please estimate the number of independent audits to be submitted and when, as well as the number FCC expects to review in detail.

e) Given that the cutback of three audit positions occurs, please explain how FCC will view the attestation audits submitted by the independent accountants. Will the attestation audits be accepted in lieu of an FCC audit or will it supplement an FCC audit?

f) With the concerns raised recently in Congress about the increased possibility of cross-subsidization harming telephone ratepayers in the absence of separate subsidiaries, how will FCC be able to satisfy Congress that vigilance will be maintained with the staff level proposed?

Answer:

a) We intend to intensify our audit program through the extensive use of independent auditors. Currently we conduct an audit of each major carrier about once every five years. Requiring all major carriers to have audits of their joint cost allocation each year will greatly increase the number of audits conducted. The FCC staff will also review the independent audits and target particular areas for further study if neccessary.

b) Although with the recent adoption of joint cost rules we will have the additional task of reviewing the independent attestation audits, these rules will not result in a greatly increased workload. This is so because the independent attestation audits will replace many routine audit activities that we have performed in recent years, e.g., audits of allocations of joint costs between affiliates, and various Computer II rules.

c) The planned cutback should have no impact on the Commission's other audit responsibilities either in terms of the number of companies we audit or the frequency of these audits. Our reliance on independent auditors to audit carriers' joint costs allocations will free our auditors currently engaged in this work to audit other aspects of the carriers' operations. Furthermore, we plan to expand our use of independent auditors to audit other aspects of the carriers' operations.

In 1987 we plan to conduct about thirteen audits. These audits will include reviews of the carriers' costs that are shared with their nonregulated subsidiaries, commissions paid their nonregulated CPE subsidaries under their sales agency programs, and the separation of the carriers' costs

between the state and interstate jurisdictions. The objective of each of these audits is to determine whether the carriers are complying with the Commission's rules and policies. The following list shows the carriers we intend to audit, the location of the carrier's office, and the person years that will be devoted to the audit. When the person hours are double the person hours of the other audits, it means that two audits will be conducted for that carrier.

Carrier	Location	Resources
Southwestern Bell	St. Louis	.5
South Central Bell	Montgomery	1
Michigan Bell	Detroit	1
Bell of Pa	Phila. Pa	.5
Pacific Tel	San Francico	.5
GTE of the West	Los Angeles	.5
United Telephone	Kansas City	.5
New York Telephone	New York	1
Continental Telephone	Fairfax Va	.5
GTE	Stanford Ct	.5

In 1988 we plan to conduct approximately eight audits. These audits will include reviews of the carriers' separation of their costs between the state and interstate jursidictions, the carriers' allocation of costs to the various access elements, and any aspects of joint cost allocation that are not fully covered by the independent audits. We also plan to use our auditors to review the independent audits. We have not yet designated particular companies for our 1988 audits.

d) We have not developed a formal written plan for monitoring the results of the independent audits. However, areas we intend to focus on include ensuring that the auditors' work complies with generally accepted auditing standards, that they review areas of particular concern to the Commission, and that the auditors conduct follow-up audits on areas where they find the carriers are not in compliance with the prescribed rules. We also intend to prepare an annual list that describes the major findings of each audit submitted by the independent auditors. Our review and analysis of the independent audit results will be used to determine if particular areas warrant follow-up audits by FCC auditors or whether a modification of our rules should be considered.

It is anticipated that approximately 60 audits will be submitted by the independent auditors in 1988 and each year thereafter. We currently plan to review all of them.

e) In many cases we expect the independent audits to be in lieu of FCC audits. Our staff will then review and analyze the independent audits. This utilization of our resources will allow the Commission to have audits of a larger group of carriers. We also intend to have our staff conduct audits of carriers that consistently generate unsatisfactory findings in the independent audit process. We will also use our auditors to conduct audits of carriers' operations where independent audits are not required.

f) In order to ensure that regulated telephone ratepayers do not subsidize a carrier's nonregulated activities, the Commission adopted principles for the allocation of joint and common costs between the carriers' regulated and unregulated activities in CC Docket No. 86-111. The carriers are to develop detailed cost allocation manuals implementing these principles. These manuals will be subject to public comment and FCC review prior to implementation. In addition, the carriers' cost allocations will be subject to review by independent auditors. These audits will be reviewed by the FCC staff, allowing us to target particular problem areas for further study. We believe that these measures will ensure that consumers using regulated services do not subsidize the carriers' competitive ventures.

Question: With regard to the page 68 list of the Common Carrier Bureau's FY 1986 accomplishments working with the states on issues that arise under the Federal-State Joint Board process, we have the following questions.

a) How many states has FCC approved for participation in its federal/state lifeline telephone programs for low income households? Is the number in line with what the FCC expected? What efforts is FCC taking to convince additional states to participate?

b) How much will FCC's Universal Service Fund pay out each year from 1986-1993? Who operates this fund? What responsibility does the FCC have to ensure the fund is properly administered? Does the FCC audit operation of the fund? If yes, please provide a copy of the current audit report?

c) There are now about 1,000 small telephone companies with less than 20,000 lines. What is the FCC doing to help ensure the health of this industry segment? Will these numbers be gradually reduced through mergers and consolidations?

Answer:

a) To date, the Commission has certified lifeline plans in ten states and the District of Columbia pursuant to the broader lifeline assistance measures recommended by the Joint Board and adopted by the Commission in late 1985. These measures provide for a full waiver of the federal subscriber line charge (SLC) in conjunction with matching state benefits for qualifying subscribers in states with certified plans. The federal lifeline assistance program is intended to preserve and promote telephone subscribership among low income households consistent with the Commission's universal service objectives. We do not expect that every state will apply for, or require, federal lifeline assistance, but we would like to see these benefits made available to as many Americans as possible. Thus, the Commission is working with state commissions, state legislators, and telephone companies to inform the public of the benefits available in the federal lifeline assistance program, and to urge implementation of qualifying assistance plans.

The Further Notice, which the Commission issued in July 1986, also asked the Joint Board to reexamine the present federal lifeline assistance measures to see if they are furthering our universal service goals and to recommend any changes that may be warranted at this time. The Joint Board is expected to make its recommendations in the very near future.

b) The current Universal Service Fund (USF) rules establish a phase-in period of eight years for the full implementation of the USF. Therefore, the fund substantially increases assistance to high cost companies each year until 1993 when it will be fully implemented. The current estimated pay out of the universal service fund each year from 1986 to 1993, assuming the current HCF formula and no growth in the number of lines or the cost of the local loop and not accounting for inflation, is: $56 million in 1986; $112 million in 1987; $168 million in 1988; $224 million in 1989; $280 million in 1990; $336 million in 1991; $392 million in 1992; and, $449 million in 1993. Of course, these amounts would be affected by any changes in the HCF assistance formula. Proposals for revision of this formula are presently under consideration in CC Docket Nos. 78-72 and 80-286.

The Universal Service Fund is presently administered by the National Exchange Carrier Association (NECA), an association created by the FCC primarily to administer the carrier common line access pool and the Traffic Sensitive access pool for the local exchange carriers (LECs). The USF revenue requirement is currently recovered through the carrier common line (CCL) rate element charged by the LECs to the interexchange carriers for access to the local telephone network, and then distributed by NECA to qualifying LECs.

The FCC also has annually requested NECA to file information with the Federal Communications Commission and the Joint Board detailing the local loop costs used in the calculation of high cost assistance. The most current local loop data was filed with the FCC on September 2, 1986, and is available to the public in the FCC Dockets Room. The USF is part of the carrier common line pool administered by NECA. The FCC has oversight responsibility over NECA to ensure that it administers and distributes all funds and pools properly. NECA is required to maintain internal auditing procedures to ensure proper administration of the pools. In addition, Ernst & Whinney annually conducts an independent audit of NECA to evaluate the control procedures of NECA's settlement processing system and the degree of compliance with them.

c) The FCC is well aware of the concerns of small local exchange carriers and is committed to ensuring their viability. Specifically, small telephone companies, many of which experience high loop costs, are protected by the establishment of the Universal Service Fund (USF) which provides assistance to subscribers in areas with high loop costs. Although all local exchange carriers with high loop costs are eligible for USF assistance, the current USF provides greater assistance to small carriers with less than 50,000 working loops than to the larger local exchange carriers. The USF assistance ensures that these small carriers are able to provide their customers with quality telephone service at reasonable rates. In addition, the Commission has adopted other provisions designed to benefit the small local exchange carriers--such as the mandatory Non-Traffic Sensitive (NTS) and the voluntary Traffic Sensitive access pools which provide for cost, risk, and resource sharing. We have also continued the "average schedule" compensation formula which allows local exchange carriers to be paid for their interstate access costs without conducting actual cost studies, thereby allowing these carriers to save substantial costs. The number of small independent telephone companies has decreased gradually over the last several decades. To date, we are not aware of any significant change in this long term trend.

Mass Media Bureau

Question: The President's FY 1988 budget provides for an auctioning of certain radio frequencies. An FCC official has estimated that $600 million could be generated in 1988 if the Congress permitted auctioning. What increases or decreases would be necessary for staff and other support items in the FCC FY 1988 budget if auctioning were allowed?

Answer: The proposed legislation is very narrow in scope, and would authorize auctions as a direct substitute for lotteries and comparative hearings without altering the terms or conditions of licenses. Thus, the use of auctions should reduce the number of lotteries (and comparative hearings) otherwise held, and auction procedures should more or less parallel the procedures already used for lotteries. Because we see auctions as incorporating many of the benefits of lotteries (e.g., less delay) while attracting fewer applications, on balance, auctions should save the agency resources relative to the other alternatives of selecting among competing applicants. Nonetheless, we recognize that there are startup costs associated with introducing any new process, and that auctions will require some new and modified procedures which might require new or reassigned personnel.

These costs fall into three categories:

1) Rule making and development of agency procedures. These could be incorporated within existing resources.

2) Conducting Auctions. Auction would not increase printing or Federal Register expenses. We estimate a maximum of two additional clerical

positions for conducting auctions. This estimate does not reflect possible savings of personnel needed to conduct lotteries or comparative hearings.

3) Accounting of receipts. The FCC's Financial Management Division's additional resource requirement will be about 1/4 workyear.

Engineering and Technology

Question: Pages 111 and 112 of the budget state that a "concept" for a rational plan for public safety services radio frequencies was developed and tested for agencies in the Boston-New York-Washington corridor. The public safety plan was mandated by the FCC Authorization Act of 1983. When will the plan itself be completed?

Answer: The Commission is committed to developing a national plan for the use of the spectrum by public safety services. To assist in this effort, a government-industry technical advisory committee, the National Public Safety Planning Advisory Committee, was chartered by the FCC. Input from the public safety community is essential if an effective, usable plan is to be developed. The results from the advisory committee will form the basis for a national plan. Part of this effort is expected to include a computer analysis of how effective various approaches would be in satisfying demand in the Boston-New York-Washington corridor. The initial report of the advisory committee is due to the Commission on March 31, 1987, and the final report is due in September 1987. The plan itself should be completed shortly after that time.

Question: As stated on pages 113 and 114, the Office of Engineering and Technology processes experimental license applications to encourage technical innovation. This past fiscal year alone, 840 applications for new or renewed authorizations were processed. Since 1980, what have been the 10 most significant technical innovations that have resulted from this program?

Answer: 1) The development of digital voice modulation for use in radio equipment for secure communications by public safety agencies. 2) The development of digital time sharing techniques to allow more than one user to use the same channel without an increase in radio bandwidth. 3) The development of meteor burst communications for use in long distance communications. 4) The development of equipment for a new Digital Termination Service in the 10 GHz band. 5) The development of equipment for a new maritime radiotelephone system for use in the 216-220 MHz band. 6) The development of a system using inexpensive miniature radio transponders to aid in the recovery of stolen vehicles. 7) The continuing development and testing of a nationwide air-to-ground radiotelephone system for use by the public from commercial aircraft. 8) The development of a new Radio-Determination Satellite-Service (RDSS) for precise locating of vehicles and people carrying inexpensive radio transceivers. 9) The development of a multi-channel-multi-point distribution system (MMDS) for use in providing pay TV to the home over microwave frequencies. 10) The development of several spread spectrum frequency-hopping land mobile systems for use in providing secure communications by public safety agencies.

Private Radio Bureau

Question: The FY 1988 budget would provide the Private Radio Bureau with 213 positions (218 FTE).

a) Does this staffing level provide for the employees necessary to implement a radio spectrum auction program as provided for in the President's budget? If not, how many additional employees will be needed?

b) Does FCC have plans prepared to implement radio spectrum auctions if approved? If so, please describe the process involved.

Answer:

a) No. This staffing level does not include the additional resources necessary to implement Chairman Fowler's auction proposal. We estimate that the FCC will need a maximum of two additional clerical positions for conducting auctions. We also estimate that an additional 1/4 workyear will be needed in the FCC's Financial Management Division to account for auction receipts.

b) The FCC has not yet prepared a detailed plan to implement the auctions proposal. The first step in implementing enabling legislation would be to conduct a rulemaking.

Question: Please explain the increasing number of days for speed of service shown in the workload and performance summary table on page 96. This table shows that speed of service declined significantly in every category from FY 1985 to FY 1986.

Answer: While speeds of service did increase from FY 1985 to FY 1986, the increases were not significant. In 11 of 13 services, increases totaled 3 days or less with the exceptions being 5 and 7 days. Moreover, all speeds of service were below targeted goals. This minimal difference was largely attributable to a 5% decrease in resources from FY 1985 to FY 1986. In addition, some FY 1986 resources were used in handling nearly 94,000 Cellular applications.

FEDERAL MARITIME COMMISSION

STATEMENT OF EDWARD V. HICKEY, JR., CHAIRMAN

ACCOMPANIED BY:
JAMES J. CAREY, VICE CHAIRMAN
EDWARD P. WALSH, MANAGING DIRECTOR
FREDERICK F. TRUTKOFF, DIRECTOR, OFFICE OF BUDGET AND FINANCIAL MANAGEMENT

BUDGET REQUEST

Senator HOLLINGS. Our second request this morning is the Federal Maritime Commission's request of $14.5 million to cover fiscal year 1988 operating expenses. The request represents an increase of $2,553,000 in the fiscal 1988 budget base, which was adjusted to reflect the $347,000 for the January 1987, civilian pay raise, and for the new Federal employee retirement system.

Appearing on behalf of the Commission is The Honorable Edward V. Hickey, Jr., the Chairman, accompanied by the Honorable James J. Carey, Vice Chairman; Edward P. Walsh, the Managing Director; and Frederick F. Trutkoff, Director of the Office of Budget and Financial Management.

Mr. Hickey, we welcome you, and we would be delighted to hear from you at this time.

Mr. HICKEY. Thank you, Mr. Chairman and members of the Committee.

Senator HOLLINGS. You can file the statement and summarize it or you can present it in its entirety.

Mr. HICKEY. I would like to summarize it, Mr. Chairman.

Senator HOLLINGS. The statement will be included in its entirety, and we would be delighted for you to do that.

Mr. HICKEY. Thank you very much. The Federal Maritime Commission is requesting $14,500,000 for fiscal year 1988. This amount, which is the same as that included in the President's budget, will provide funding for 216 work years of employment, and is an increase of $2,553,000 above our anticipated appropriation for fiscal year 1987. Much of this increase is the result of additional administrative charges over which we have no control.

TARIFF AUTOMATION

The only major programmatic increase is $1,430,000 for the design and initial procurement of a prototype automated tariff filing system.

For the past several years, the Commission has been exploring the possibility of adapting our outmoded manual tariff filing system to the computer age. We have obtained the views of all affected parties

through the course of three advisory committee meetings and have recently received a feasibility study which was conducted by a private consulting firm.

The consensus reached by the committee and the study is clear: An automated tariff filing system at the Federal Maritime Commission is both feasible and desirable.

There are several reasons why we believe that an automated tariff filing system is beneficial and necessary. The sheer volume of tariff pages filed with the Commission, approximately 700,000 this year, is making it increasingly difficult for us to fulfill our statutory mandates.

An automated tariff filing system would greatly enhance our ability to analyze tariff data and enforce the shipping statutes. Such a system could also benefit private parties since they would be able to rapidly file, retrieve and evaluate tariff information.

In addition, the availability of automated tariff information will make the Commission's study of the increases and decreases of the level of rates pursuant to Section 18 of the Shipping Act of 1984 much easier.

During fiscal year 1988, the Commission intends to procure a prototype automated tariff system and operate it in conjunction with several volunteer carriers, conferences and ports who have expressed a desire to participate. We hope to have a fully automated system in operation by the end of fiscal year 1989.

ENFORCEMENT ACTIVITIES

Mr. Chairman, as you know, the Shipping Act of 1984 significantly altered the Commission's regulatory mission. We no longer focus our efforts on the pre-implementation approval process for agreements among ocean common carriers. Rather, we are concentrating our efforts to uncover and penalize violations of the 1984 Act. We believe that if our statutes are enforced fairly and effectively, nondiscriminatory common carriage will be assured and the interests of the public will be well served.

To this end, we intend to take several steps to improve our enforcement efforts during fiscal year 1988. We have recently completed plans which will strengthen our bureaus and offices. As a part of this effort, our enforcement program has been somewhat restructured, and we are attempting to target major industry malpractices. We have also begun a formal training program for our investigators and others involved in enforcement matters. In addition, we have hired new personnel for our enforcement program, the first such hiring since 1980.

Mr. Chairman, I believe our 1988 budget request is responsive to both our statutory charter and today's economic realities. I therefore urge its favorable consideration.

At this time, I would be pleased to respond to any questions which you may have.

[The statement of Edward V. Hickey, Jr. follows:]

PREPARED STATEMENT OF HON. EDWARD V. HICKEY, JR.
CHAIRMAN
FEDERAL MARITIME COMMISSION

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you today to present the fiscal year 1988 budget request of the Federal Maritime Commission.

With me today are Vice Chairman James J. Carey, who has, for the past several years, headed a task force to automate the Commission's tariff filing system, a project that represents the most significant increase in the budget; Edward P. Walsh, the Commission's Managing Director; and Frederick F. Trutkoff, the Director of the Commission's Office of Budget and Financial Management.

Before addressing our specific budget request, I would like to make one point. The Federal Maritime Commission is a regulatory agency. We do not administer any grant programs and, as a result, we exercise very limited discretionary spending. The Commission's budget is strictly an operating budget. Personnel costs, including salaries and benefits, constitute approximately 80 percent of the total budget.

The Federal Maritime Commission is requesting $14,500,000, for fiscal year 1988. This will provide funding for 216 workyears of employment, and represents an increase of $2,553,000 above our anticipated appropriation for fiscal year 1987, including supplemental appropriations for pay and retirement. This increase includes: (1) $478,000 for payments to the Federal Employees' Retirement System; (2) $73,000 for two additional workyears; (3) $296,000 for GSA rent increases due to increases in cost per

square foot charges in Washington, D.C., as well as our field offices; (4) $276,000 for "built-in" costs related to the annualization of civilian pay increases, automatic within grade increases, and other nondiscretionary administrative expenses; and (5) $1,430,000 for the design and initial procurement of a prototype automated tariff system.

I would now like to address some of the major activities included in the proposed budget for 1988.

In last year's statement, I noted that the Commission was conducting a feasibility study for implementing an automated tariff filing and information retrieval system to replace the Commission's present manual system for receiving, filing, and analyzing the hundreds of thousands of tariff pages we receive annually. This study was conducted by a private consulting firm over an eleven-month period based upon input from a variety of sources, including an advisory committee composed of representatives of the agency, the information industry, the transportation industry and the shipping public. Through the study and the three meetings of our industry advisory group, a consensus was formed that tariff automation is feasible and desirable.

There are several reasons why an automated tariff filing system is necessary. The sheer volume of tariff pages at the Commission is making it increasingly difficult to carry out our Congressional mandate to examine and file tariffs as they are received, as well as to analyze the data contained therein. Automated tariff information would be readily available to the Commission's staff, including our field offices, greatly enhancing our surveillance, enforcement, and trade monitoring efforts. For example, a carrier's inordinately large market share, when compared to

that of a competitor with a similar tariff rate, could indicate unlawful rebating or other malpractices. Further, coordinated low tariff rates by a group of carriers could indicate the possibility of predatory practices against competing carriers. Reliable, accurate, and easily accessible tariff information would also greatly assist the Commission in monitoring the practices of state-owned carriers that have chosen to compete in our trades. Tariff information also has a great deal of economic and competitive value to shippers, carriers, and others involved with the ocean transportation industry. The ability to rapidly file, retrieve, and evaluate tariff information has the potential to produce significant efficiencies in the private sector. Lastly, section 18(a) of the Shipping Act of 1984 mandates that the Commission, for five years, collect and analyze information on increases or decreases in the level of rates. This would be facilitated by the availability of automated information, simply because of the immensity of the data base involved.

Like most price lists, tariff rates are constantly changing as new services are added, as new commodities enter our commerce, and as the natural dynamics of competition and the free market dictate changes. Today, we have roughly 4,500 tariffs on file at the Commission, some literally the size of the Manhattan, New York telephone directory. Each time a change is made, a new page is filed. As the tempo of the international business arena increases, there is a corresponding increase in the number of tariffs on file at the Commission and the volume of annual filings. In 1965, there were about 2,300 tariffs on file, and only 8,400 tariff pages containing rate changes were filed during that year. This year, approximately 700,000 pages will be filed

with the Commission, reflecting over 3 million separate rate changes. This increasing paperwork has become overwhelming, especially in light of our current system of maintaining tariffs. We now manually insert new tariff pages and re-printed pages into three-ring notebooks, which are then kept in a large room for public inspection. One could compare this operation to the telephone company re-printing a page of a directory every time a telephone number is changed or a new subscriber is added.

In an attempt to remedy this problem, the Commission will soon enter into the next phase of its tariff automation project. This will include a cost-benefit analysis and the preparation of a request for proposals on the development of the system.

We intend that, by the end of fiscal year 1988, a pilot or prototype automated tariff filing system will be operative. The $1,540,000 we are requesting for fiscal year 1988 will allow us to procure the prototype and operate it, in conjunction with several volunteer carriers, conferences, freight forwarders, and shippers who have indicated a desire to participate. We look forward to having a full system operable during fiscal year 1989.

One of the many requirements the Shipping Act of 1984 places on the Commission is that it assess the impact of the Act on the international ocean shipping industry. The information to be collected relates not only to increases or decreases in tariffs, but also to changes in common carrier services available to ports, the number and strength of independent carriers, and the cost of major regulatory proceedings before the Commission. During fiscal year 1988, the Commission will continue to collect and analyze data on the impact of the 1984 Act, and begin the preparation of the

report required by the Act. Various industry groups have agreed to assist the Commission in its attempt to collect accurate, meaningful data for its report. Thus far, a shipper study group, a carrier study group, and a port study group have been organized for these purposes. These groups will be helpful in ensuring that the rate information, survey results, and data on service levels are collected in an appropriate fashion for submission.

The recent bankruptcy petition filed by United States Lines, one of the few remaining U.S.-flag ocean common carriers, illustrates all too well the extremely competitive environment our merchant fleet faces in what is truly a global market. We at the Commission are very deeply concerned with the serious downward trend in American shipping and the profound implications this has on the defense of our nation. While the Commission does not directly promote the interests of the U.S.-flag fleet, its administration of the shipping statutes, particularly the Shipping Act of 1984, can provide the U.S.-flag fleet with a favorable environment in which to compete and, thereby, improve its chances of survival.

However, if the Commission is unable to adequately enforce the shipping statutes, U.S.-flag carriers could be severely disadvantaged. In that case, the foreign-flag carriers, which have chosen to enter our trade because of its size and value, could freely engage in practices such as rebating or predatory pricing which, while possibly acceptable in foreign trades, are prohibited in our trades. Unless United States law is enforced effectively and fairly, the U.S.-flag carriers' position may be severely weakened vis-a-vis their aggressive foreign-flag counterparts. I do

not believe that Congress intended or will countenance such a result.

The Commission has recently taken several steps to improve its ability to enforce the Shipping Act of 1984. We have completed plans to reorganize our bureaus and offices so that we can better respond to the mandates of the 1984 Act and our altered role thereunder. As part of this reorganization, our enforcement program has been restructured, placing more of an emphasis on targeting major industry malpractices. We have also instituted a formal training program for our investigators. This involves attendance at training seminars on investigative techniques. This effort, as well as instruction on specific industry malpractices, will be expanded to include not only investigative personnel but also attorneys involved in enforcement matters. We have also recently hired new personnel for our enforcement program. This is the first such hiring in several years and we plan to continue this effort in fiscal year 1988.

Equally important to the Commission's enforcement program is a new trade monitoring system which we have developed under our new reorganization. This program will allow the Commission to gain information concerning the effects of competition in major U.S. trades, and will provide a focus for our enforcement efforts, through the analysis of economic and trade data.

At a time when foreign governments are taking increasingly bold measures to ensure the good fortunes of their merchant fleets, often at the expense of competing carriers, it would be particularly ironic if the United States could not protect its carriers from such actions. There are two provisions in our shipping statutes which

allow the United States, through the FMC, to respond to adverse actions of foreign governments. Section 13(b)(5) of the Shipping Act of 1984 permits the FMC to retaliate if a foreign carrier or government unduly impairs the access of a U.S.-flag carrier to a trade between two foreign countries. Section 19 of the Merchant Marine Act, 1920 permits the Commission to react to unfavorable conditions in our foreign trades. With the increasing efforts of some foreign governments to bolster their own fleets to the detriment of others, the Commission anticipates that it will be called upon even more frequently to exercise its authority under these statutes.

Mr. Chairman, I would like to point out that over the last six years, the Commission's workforce has decreased from 360 workyears to 214 workyears. This represents over a 35 percent reduction at a time when some government agencies have had their workforces increase or at least remain static. I am aware of few other agencies which have absorbed such a large decrease in personnel, while at the same time experiencing no decrease in statutory responsibilities.

The Commission and its 214 employees have the responsibility for regulating the transportation of cargo by liner operators in both the United States foreign commerce and our domestic offshore commerce, an industry which accounted for over $181 billion of liner cargo in 1985. Administering the shipping statutes over such a large and vital industry is a significant undertaking. The Commission's 1988 budget estimate is responsive to both our statutory charter and the economic realities we all face

today. The amount we are requesting in 1988, $14,500,000, is the same as that approved by OMB and provided in the President's proposed budget. Mr. Chairman, I urge your favorable consideration of our submission.

I will be pleased to respond to any questions.

VOLUME OF CARGO UNDER TARIFFS/SERVICE CONTRACTS

Senator HOLLINGS. Thank you, sir.

Senator Inouye?

Senator INOUYE. Mr. Chairman, I have just one question. The 1984 Shipping Act reaffirmed the requirement that carriers in our international liner trades file tariffs, and as you pointed out, we have the anti-rebating provision there. This Act also authorized service contracts, and I gather that several thousand of these service contracts have been filed. As we know, cargo moving under the service contract does not require a tariff to be filed.

As far as I am concerned, it was never the intention of Congress to permit service contracts to replace tariffs. My question is: What volume of cargo in our international liner trades is now moving under tariffs and what volume under service contracts? Do you have any numbers on that?

Mr. HICKEY. I don't have them before me, but I will be glad to submit that.

Senator INOUYE. Do you have any ball park figures?

Mr. HICKEY. Do you have anything on that?

Mr. CAREY. Senator, I know at one point we were receiving—I believe it was around 3,000 service contracts a year, and I have heard some numbers from some of the larger shippers. For example, I believe it was Dow and one of the other large chemical companies that was shipping 75 percent of their cargo under service contracts. But I don't have the overall numbers as to what the break-out is.

Mr. HICKEY. The number, Senator, at peak, in 1986, was approximately 4,000. We are seeing a dropping of that figure.

Senator INOUYE. I am thinking about the volume.

Mr. HICKEY. The volume, I don't have that before me.

Senator INOUYE. I would like to know if you have made a study to determine whether parties are using service contracts to avoid the filing of tariffs.

Mr. HICKEY. Within the Commission, Senator, we constantly monitor the service contract process to make certain that our statutes are being complied with, and we also look for the unlawful use of service contracts, again, referring to our enforcement program.

The request within the budget that I outlined, the need for automation, the tariff system automation, would tremendously enhance the ability to monitor and track specifically what is going on in the area of service contracts.

Senator INOUYE. I ask these questions because if we conclude that the parties are using service contracts to avoid the requirement of tariffs, then we may be compelled to go through the legislative route and close that door. That was never our intention.

So you would help the authorizing committee, especially, immensely, if you would give us that information.

Mr. HICKEY. We will be happy to provide it, Senator.

[The information follows:]

CARGO MOVING UNDER SERVICE CONTRACTS

The Federal Maritime Commission does not maintain statistics on the volume of cargo moving under service contracts. In fact, such statistics do not exist in the public domain. From the Bureau of Census statistics we can determine the volumes of cargo moving in the oceanborne trades, but Census does not distinguish between cargoes moving via service contracts versus tariff rates.

The information that we do have about the amount of cargo moving under service contracts comes from three sources: industry contacts; the Carrier Survey sent to liner operators as part of the Section 18 Study; and the responses thus far to a rate questionnaire sent to conferences, again for the Section 18 Study.

From industry contacts, it is our understanding that the volume for which service contracts account ranges from as much as 80 percent of the inbound Japan trade to virtually zero in the Brazil trade. In both the European and Asian trades, many more service contracts have been entered into in the inbound trades than the outbound trades. One reason for this disparity is that rates are depressed in our export trades so that shippers haven't had to worry about locking in rates that may rise in the future.

Liner operators were asked for information on the percent of their revenues earned in 1985 from service contracts as part of a Carrier Survey. For those carriers that had service contracts, the majority reported that for their export trades, between 1-20 percent of their revenues were earned from service contracts; for imports, the two most frequent responses were between 21-50 percent and more than 50 percent.

Our final source of information comes from responses to questions in a rate questionnaire sent to conferences. Certain conferences are providing information on what percentage of specific commodities are moving via service contracts. Thus far, we have received data only on the outbound European trade but we should be receiving information later this year on the Asian, Australian and other European trades. Of the 14 major moving commodities we are tracking in the outbound North Atlantic trade, six were moving predominantly under service contracts. The range of the amount of the six commodities moving under service contracts was from 60 to 100 percent. When the data for the inbound European trades are received, we expect the number of commodities moving under service contracts to be even higher.

The Commission does maintain statistics on the number of service contracts filed in our trades. From 1984 to 1987, the numbers of service contracts filed at the Commission are as follows:

1984 (from June 18, 1984) - 460;

1985 - 3,186 (247 filed through February 23, 1985);

1986 - 3,905 (1,061 filed through February 22, 1986); and

1987 - 1,086 (through February 19, 1987).

Since many service contracts expire on December 31, we experience an upsurge in filings in the first months of each calendar year. Our experience in 1985 did not reflect such an upsurge, i.e., only 247 service contracts were filed between

January 1 and February 23, 1985. It is worth noting that service contracts were still a relatively new option for the industry at that time. For a pattern to emerge based upon a previous full calendar year of filings, we look to the period between January 1 and February 22, 1986, when 1,061 of the 3,905 service contracts received within calendar year 1986 were filed. We experienced a similar upswing in early 1987 filings, and we believe that the total volume for 1987 will be in the neighborhood of those for 1986. Also, it should be noted that the structure of the service contract system is undergoing change because, in early 1986, the Asia North American Eastbound Rate Agreement (ANERA) and the Transpacific Westbound Rate Agreement (TWRA) took control over their members' service contracts. Prior to that, each member line could establish its own independent service contract. The impact of this change may be significant. It is our understanding, for instance, that since they asserted jurisdiction, the TransPacific Westbound Rate Agreement has not negotiated a single service contract.

VOLUME OF CARGO UNDER SERVICE CONTRACTS

Senator INOUYE. Because from what I hear, the volume is a horrendous one.

Mr. HICKEY. It is.

Senator HOLLINGS. That is what we hear. Do you recommend such legislation or not?

Mr. HICKEY. I would rather get the facts before the committee and then conclude from what the figures are as to what I would recommend then.

Senator HOLLINGS. Excuse me.

Senator INOUYE. That is it.

Senator HOLLINGS. Good.

Senator Rudman?

Senator RUDMAN. I have a couple of questions for the record, but nothing else here.

Mr. HICKEY. Thank you, sir.

Senator HOLLINGS. Senator Kasten?

NON-TARIFF TRADE BARRIERS

Senator KASTEN. Mr. Chairman, I just have one brief question that really I wanted to just get some information on. In your statement, you point out that foreign governments are taking, as you described, increasingly bold measures to ensure the good fortune of their merchant fleets, at one point, you say "—at the expense of competing carriers."

Then later on you say that you have two different ways of using your authority, and you suggested that you are going to be asked to exercise this authority more frequently under the statutes in view of the actions that the foreign governments are taking.

Could you describe to me the facts behind which you can say that the foreign governments are taking increasingly bold measures, and if you can give me one or two specifics, and then also describe what action you have had to take in the last year under these two authorities that you have?

Mr. HICKEY. The two authorities I believe you refer to are Section 19 of the Merchant Marine Act, 1920 and Section 13(b)(5) of the Shipping Act of 1984.

Senator KASTEN. That is correct.

HIGH CUBE ISSUE IN JAPAN

Mr. HICKEY. A good example, in my view, would be the so-called high cube issue in Japan, where the cubes or the containers are larger in volume and, obviously, are much more efficient. The Japanese government has in place a number of restrictions on the use of high cubes on the roadways in Japan.

The Commission has sought information from carriers as to the effect of the restrictions on their operations.

Senator KASTEN. Section 19 relates to unfavorable conditions.

Mr. HICKEY. That is right.

Senator KASTEN. And Section 13(b)(5) is?

Mr. HICKEY. Foreign-to-foreign carriage by U.S. flag carriers.

Senator KASTEN. Impairing the actions. So unfavorable conditions would be, in effect, non-tariff trade barriers?

Mr. HICKEY. Correct. Now, to date, since the passage of the Act, we have not had a complaint under section 13(b)(5) of the Shipping Act of 1984. However, there are several pending under our Section 19 authority.

The Japanese government, in response to pressure from us, has relaxed these restrictions. We are not sure whether the relaxations are adequate, but we are getting favorable responses from our actions in terms of allowing our carriers and also their own to use the high cubes in transport within Japan.

The interesting thing about it is that most of the high cubes were manufactured in Japan.

Senator KASTEN. So what you are saying to us is that you haven't really had to press forward and exercise your authority here; you have just, because you have got the authority, you are able to negotiate.

Mr. HICKEY. We have the authority. We initiate the action. We certainly do get the attention of those governments that do hold out discriminatory practices against our carriers, and once we exercise these proceedings, our experience has been that very quickly, we remove the impediments to the trade.

Senator KASTEN. That has, in fact, been your experience in every case?

Mr. HICKEY. That has been our experience.

Senator KASTEN. You haven't had to push it out.

Mr. HICKEY. We haven't had to push it through to the final step, thus far.

Senator KASTEN. I can't speak for the committee, but I think overall, there is a whole effort being made in these non-tariff barrier areas that we haven't been able to legislate, whether it has been the textile legislation or other legislation, that a number of us on a bipartisan basis haven't been able to legislate.

We haven't been able to get the French to check every single radio recorder in that little town. All these things are going on. If it is going on in shipping, I would like to work with you, and I think there are others that would like to work with you to tear down those barriers.

Mr. HICKEY. Every time we have a complaint, we can move forward. We have had no reluctance, whatsoever, to use our authority.

Senator KASTEN. Thank you, Mr. Chairman.

TARIFF AUTOMATION

Senator HOLLINGS. That is good news, Mr. Hickey. Are you going to see some personnel savings as a result of your automated system?

Mr. HICKEY. Senator, in my view——

Senator HOLLINGS. I just want, when you come back, to see how much you saved that you testified to, so watch what you say.

Mr. HICKEY. I will be very careful as to what I say. Some people might say we might eliminate people that are doing this now manually, that if you get into an automated system, you perhaps get into higher skills. I don't really see this, in all honesty, to be a tremendous savings in terms of funds, but I think that it would give the Commission tremendous efficiency. I think that is what we are looking for.

SERVICE CONTRACTS

Senator HOLLINGS. Would it give it better information on service contracts?

Mr. HICKEY. It would.

Senator HOLLINGS. Is it so structured that we can punch it out?

Mr. HICKEY. On service contracts and a number of things, and it would help us in our enforcement effort. Rather than having to manually search these records and indices, we could do it much more rapidly.

Senator HOLLINGS. Very good. I have some other questions to submit for the record. We appreciate your appearance very much.

Excuse me. Senator Inouye has one more question.

RATE OF RETURN REGULATION

Senator INOUYE. The Matson Navigation Company is subject to rate of return regulation. That is, they are authorized to receive only a predetermined amount of profit depending on its capital base.

If American President Line gets Marad to permit it to serve Hawaii from the mainland as part of its international voyages, would APL be subject to this rate of return regulation by your Commission?

Mr. CAREY. Yes, it would.

Mr. HICKEY. It would, yes, sir.

Senator INOUYE. How would you do it?

Mr. HICKEY. This is our general counsel, Mr. Bourgoin.

Mr. BOURGOIN. In the same way we regulate Matson's rates. They would be subject to the same standards and the same requirements to the extent that they operate in the domestic offshore commerce, say, from a port on the mainland to Hawaii or in return.

SHIP OPERATING SUBSIDIES

Senator INOUYE. What if the ship also receives operating subsidies?

Mr. BOURGOIN. That is a good question, and maybe that is one that we have to provide for the record, but I don't think we have ever had that situation.

Senator INOUYE. As you know, they do.

Mr. BOURGOIN. We do know. APL is a subsidized carrier, yes, but I am saying in the past, we never had a situation in which a carrier received a subsidy for its domestic offshore operations.

Senator INOUYE. It won't take long. Thank you.

[The information follows:]

SHIP OPERATING SUBSIDIES

Under present law, a carrier may not be granted an operating differential subsidy (ODS) for that portion of its operating costs allocable to a domestic offshore trade. Section 605(a) of the Merchant Marine Act, 1936, 46 U.S.C. app. § 1175(a), requires that if a subsidized carrier operates in domestic commerce, it must refund ODS payments in proportion to its domestic commerce revenue. As a result, a carrier receiving ODS and operating in the domestic offshore trades would be treated the same as a carrier not receiving ODS, at least with respect to its regulation under the Intercoastal Shipping Act, 1933, 46 U.S.C. app. § 843–848. Given existing law, the Commission has never encountered a situation where a carrier was receiving subsidy for its domestic offshore operations.

If a carrier were to be legally permitted to receive an ODS for domestic trade operations, adjustments in the methods the Commission uses to regulate the carrier's rate of return under the Intercoastal Shipping Act, 1933 would be required. The carrier would have to report the subsidy in its financial statement that must be filed with the FMC under 46 CFR Part 552. In this respect the ODS would be treated like freight revenue and would be included in calculating the carrier's profitability. Stated differently, it would, in effect, reduce the amount of revenue needed from the ratepayers to achieve the carrier's permissible rate of return.

Granting ODS on a carrier's domestic offshore operation would also have an effect on the Commission's determination of the maximum permissible rate of return for that carrier. If the ODS were substantial and represented a large portion of the carrier's domestic offshore revenues, it might reduce the relative business risk the carrier faces in comparison to other similar enterprises. Because the Commission establishes a carrier's permissible rate of return partially on the basis of the relative business risk it faces, *i.e.*, the more risk the higher the permissible rate of return and vice versa, a carrier with lower business risk because of a substantial ODS might be determined to be entitled to a lower maximum permissible rate of return than a similar non-subsidized carrier.

SUBMITTED QUESTIONS

Senator HOLLINGS. Very good.

Thank you. We have additional questions, Mr. Hickey, which we will ask you to answer for the record.

Mr. HICKEY. We will be happy to, Mr. Chairman. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Commission for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

Automated Tariff Filing Information System

You requested $1,430,000 to cover both the design and a "prototype" implementation of a new automated tariff system. In addition to this amount, your staff provided us with an estimate of $2,172,000 for Fiscal Year 1989 for the maintenance and operation of the prototype, at a rate of $60,000 per month, and also for further design and implementation.

Question 1. Will the proposed system reduce the number of personnel currently required to maintain tariff records? If so, approximately how many over the next five years?

Answer. As the automated system becomes operational we expect a gradual attrition of the fifteen employees that now manually handle tariff pages. However, there may not be a reduction in total personnel because we will need a different mix of skills as we move from the manual to the automated world.

At the present time the Commission is faced with a very difficult situation and is finding it increasingly burdensome to adequately review the rapidly growing volume of tariff material. Tariff filings have increased from 400,000 pages in 1979 to almost 700,000 pages in 1986, while the Commission's staff has been reduced from 361 to 216 people during the same period. Because more and more of the agency's resources are being expended in physically handling the pages, less and less time is available to meaningfully analyze the important information these tariffs contain. For example, tariffs have been used in the past to uncover significant unlawful acts such as carriers operating under an unfiled agreement, controlled carrier price cutting, and rebating. Currently, obtaining this information requires an extremely labor-intensive manual search of our paper tariff library. Because the proposed system will be designed to electronically access tariff information needed to reveal or prove these illegal acts, a significant secondary savings and increased efficiency will be realized in manhours expended on the investigation and enforcement functions of the Commission.

We are planning to undertake a cost/benefit analysis to quantify such direct and indirect cost savings. We would then be in a better position to estimate the impact of automation on personnel-related costs over the next five years.

Question 2. If the operation of the new system is contracted out, what would be the trade-off for annual expenditures of $720,000 in lieu of what it currently costs to maintain the same information?

Answer. It is expected that there will be some trade-off of our current tariff maintenance costs from an automated system. Additionally, we also expect to experience secondary cost savings in terms of manhours expended on the investigatory and enforcement functions of the Commission. The dollar amount of this cannot yet be determined until the benefit/cost analysis of the proposed system is completed. However, the Commission may not experience a 100 percent trade-off in terms of budgeted appropriations. Commission personnel will still be required to handle the processing of tariff documents; however, not at the same skill level.

The more significant benefits to be realized from the ATF system are the ability of the Commission to handle a large and growing amount of tariff matter without a large increase in personnel and the private sector efficiencies that will be attainable by means of automated transportation pricing information. Whether or not the system will result in a savings from the expense of our currently manual and labor intensive operation has yet to be determined. The total savings against which to measure the cost of the system may not be limited to present tariff maintenance costs.

We estimate an annual expenditure rate of $720,000 for the prototype system ($60,000 per month). Because we plan to operate the prototype for only the last three months of fiscal year 1988, our proposed budget includes $180,000 for prototype operation. The annual expenditure of the fully operational system, planned for the latter part of fiscal year 1989, is estimated at an annual rate of $984,000 ($82,000 per month).

Question 3. Will the new system eliminate the requirement to maintain files of hard copy tariff documentation?

Answer. Yes, it is anticipated that virtually all tariffs eventually will be electronically received, processed, and maintained except where a hardship results. In the case of the smallest filers, an exception to permit hard copy input is expected.

Question 4. Have you explored other automated systems within the Government which would possibly be adopted to meet your requirements at less cost?

Answer. A great deal of the feasibility study and the advisory committee discussions centered on how other Government agencies have implemented electronic information transfer. We hoped to learn from other agencies' experience and we believe we were largely successful. Specifically, we reviewed the SEC's EDGAR system, the U.S. Patent and Trademark Office's automated patent system, the Department of Agriculture's commodity information system, NIH's National Library of Medicine information system, and the U.S. Customs' uniform commodity code. In addition, the Government Information, Justice and Agriculture Subcommittee of the House Government Operations Committee has provided significant input.

The Commission is aware that computer capacity already owned by the Government may be available for this application. But to the Commission's knowledge, there is no existing system which can be dedicated to this application without the development of the FMC tariff programming (software, etc.) which constitutes a major portion of the procurement expenses. A further consideration is the Commission's objectives to maximize the privatization of this project. You may be assured that the Commission will continue to explore all possibilities both within the Government and in the private sector before entering into a contractual commitment.

Question 5. Does the $2,172,000 estimated for Fiscal Year 1989 also cover the conversion costs of your manually maintained information to a computer data base? How do you plan to make the conversion?

Answer. The conversion option was addressed by the advisory committee and the feasibility study. The Commission plans to phase in automated tariff information over a limited period of time (perhaps several years) rather than convert the manually maintained information. This approach will provide the industry the opportunity to adapt to electronic filing and avoid the cost of conversion of the existing records by the Government.

Question 6. How will this system enhance the Commission's ability to disclose violations of the "Shipping Act of 1984" relative to such areas as: illegal rebating, service contract, etc.?

Answer. The ability of the FMC enforcement personnel to rapidly access, review and cross-check tariffs between carriers will substantially facilitate the agency's ability to detect violations of the Shipping Act. The availability of a large data base that can be manipulated for specific information is an invaluable investigatory tool.

Specific examples of how manipulation of tariff information facilitates detection and verification of illegal acts include:

1. Rebates: Unusually large market share not supported by appropriately lower tariff rates indicate illegal rebating.

2. Unfiled Agreements: Illegal collusive tariff rates between parties without an agreement on file indicate illegal anticompetitive activity.

3. Controlled Carrier Rate-cutting: Controlled carrier tariff rates can be easily monitored for illegal rate-cutting.

Further, we anticipate that the system will be designed to accommodate the essential terms of service contracts which will facilitate audits and compliance with statutory disclosure requirements.

Finally, the ATFI System will include software features to establish an automated review system for new filed tariff material to ensure compliance with the Commission's rules regulating the form and manner of tariff filings. Tariff filings that do not comply with Commission filing regulations will be recognized electronically, and the computer will prompt the operator that a possible rejection is required and identify both the tariff and the objectionable material. The operator will verify the finding and a rejection document will be formulated and forwarded via electronic mail or "hard copy" posting as the case may require. This system not only permits a rapid and uniform review of tariffs, but also allows a review of all filed material as it is filed without any significant time lag.

Question 7. Last year you testified relative to the dramatic increase in service contracts in foreign commerce. Has this increase been monitored closely by the Commission to assure that the requirement to file tariffs is not being circumvented? How will the new automated system assist in this effort?

Answer. The dramatic increase in the number of service contracts experienced from 1984 to 1985 and 1986 (when filings totaled 460, 3,186, and 3,905 contracts, respectively) appears to have leveled off in 1987. We anticipate that approximately 3,500 contracts will be

filed in 1987. It should be noted that during 1986, the Asia North American Eastbound Rate Agreement (ANERA) and the Transpacific Westbound Rate Agreement (TWRA) exercised their statutory right to prohibit members from entering into individual service contracts. The service contracts can only be entered into by the conference itself. The impact of this change may be significant. It is our understanding, for instance, that since the conferences asserted jurisdiction, TWRA has not negotiated a single service contract.

Service contract filings have continued to be monitored and completed contracts audited, to assure that the requirement to file tariffs is not being circumvented.

To the extent that service contracts are being used to unlawfully circumvent the tariff filing requirements, the Commission has undertaken a number of rulemakings and possible enforcement matters to address this issue.

The automated system can assist in the effort to ensure that the tariff filing requirement is not being circumvented by service contracts by facilitating the timely review of tariff filings and the essential terms of service contracts. Additionally, the system will permit more effective manipulation of data and the quicker identification of conflicts with service contracts that have been filed.

Evaluation of Shipping Act

Question 1. Section 18, Public Law 98-237, "The Shipping Act of 1984" requires the Commission to collect and analyze information concerning this Act for a five-year period and to also consult annually with the Department of Transportation, Department of Justice and the Federal Trade Commission. What is the current status of this effort?

Answer. During fiscal year 1988, the Commission will continue to collect and analyze data on the impact of the 1984 Act, and begin the preparation of the report required by the Act. Various industry groups have agreed to assist the Commission in its attempt to collect accurate, meaningful data for its report. Thus far, a shipper study group, a carrier study group, and a port study group have been organized for these purposes. These groups will be helpful in ensuring that the rate information, survey results, and data on service levels are collected in an appropriate fashion for submission.

Additionally, we have met regularly with the executive agencies involved in the section 18 process, and consistently apprise them of any relevant developments or any significant actions we contemplate regarding this project.

Question 2. How many work years is the Commission assigning to the evaluation?

Answer. Our Bureau of Economic Analysis has the main responsibility for gathering the mandated information, and preparing the report required by section 18(c). Presently, we estimate that 80% of the time of five economists and 100% of our visiting professor's time are devoted to this task. Also, approximately 75% of the Bureau Director's time and 70% of the time of two secretaries are required

for this effort. The total dedication from this bureau equates to a little over seven workyears.

Additionally, other Bureaus within the Commission are becoming involved in the section 18 project, and we are presently planning our coordination efforts in this regard to more fully integrate their efforts in fiscal years 1988 and 1989. We contemplate that three Bureau Directors will spend 10 percent of their time coordinating the activities of their employees' efforts on this project. Further, we estimate that approximately four transportation specialists and two economists from our operating bureaus, and one general investigator from our headquarters office will be dedicating approximately 25 percent of their time on projects relating to the section 18 study. Further, the administrative support from these bureaus for the section 18 project will equate to approximately one quarter of a workyear. Therefore, in addition to the efforts of the Bureau of Economic Analysis, we contemplate the dedication of approximately 2 1/3 additional workyears to the section 18 study from other bureaus in fiscal year 1988, and as we move into 1989, we anticipate the involvement of other staff elements throughout the agency.

The section 18 project has been assigned to Commissioner Edward Philbin to coordinate both the Commission's efforts and the industry's involvement. Commissioner Philbin and his staff spend a considerable amount of their time on this assignment.

Question 3. Have the annual consultations with Transportation, Justice and the FTC produced any immediate results?

Answer. Since the Shipping Act of 1984 became law, our staff has met 18 times with representatives of the Department of Transportation, the Department of Justice, and the Federal Trade Commission. These meetings have been worthwhile. We have used these opportunities to keep these other agencies fully advised concerning our information gathering efforts and methodologies. As a result, all appropriate government entities will be reacting to the same information as we move into the evaluation phase required by the Act.

Question 4. What have you done relative to soliciting the industry's views on the impact of the Act?

Answer. We have solicited the views of the industry through the use of several methods. First, we have sent surveys to 160 carriers, 64 ports, 46 non-port terminal operators, and 2,082 shippers, seeking their views on various aspects of the Act and those matters on which we must report under section 18(c), i.e., tariff filing and enforcement, antitrust immunity for ports, and tariff design.

Additionally, in June 1986, the Commission co-hosted with Old Dominion University a symposium on the impact of the Shipping Act of 1984. Panelists represented virtually every segment of the industry, as well as government agencies involved in the section 18 process. Over 150 persons attended the seminar, which was favorably received and extremely beneficial to our efforts. We are presently contemplating a second seminar sometime in 1988.

Finally, we have formed various study groups with which the staff meets on a regular basis. Study groups have been formed by the carriers, shippers, port authorities, and freight forwarders. It is anticipated that other elements of the industry will form similar groups. These groups assist us in the data

acquisition/verification process and, later on, may provide advice on other aspects of the information gathering process.

So far, all the feedback we have received from the industry on our section 18 activities has been favorable.

Reorganization

Question 1. You recently advised us of the reorganization of certain offices within the Commission headquarters. Will this reorganization require the addition of more managers at the Senior Executive level?

Answer. Our reorganization creates no new SES positions. The Commission will continue to operate at its presently allocated level of SES positions.

Question 2. Will it require additional staffing and other relatable costs, such as, relocation expenses, more space, etc.?

Answer. No additional staffing will be required as a result of our reorganization. Several vacancies will be filled during our reorganization process, but these are vacancies that previously existed and would have been filled with or without the restructuring that we are implementing.

The costs resulting directly from our reorganization are minimal. The physical move of employees, furniture, and equipment (such as phones) will cost in the area of $1,000. No additional space is necessary to accommodate our restructuring, and we see no other expenditures being caused by our reorganization.

QUESTIONS SUBMITTED BY SENATOR RUDMAN

Automated Tariff Filing System

Question 1. The Commission is requesting an increase of $1,430,000 for the design and initial procurement of an automated tariff system. What will be the advantage of this proposal over the current system, in which tariff filings are manually received and processed by the Commission?

Answer. The new system will substantially facilitate filing and retrieval of and access to tariff material by the industry, the Commission, and the public. This, in turn, will dramatically improve the Commission's ability to monitor tariffs and service contracts and to enforce the provisions of the Shipping Act of 1984. Additionally, due to the great improvement in communication and interchange of information, the system will eventually enable the shipping industry to more readily ascertain the best rate, and, perhaps, the best routes, for the transportation of cargo, thus benefiting shippers and promoting competition among carriers.

Question 2. Once the system is operational, in FY1989, will the operating costs be lower than for the current system?

Answer. We will not know what the actual costs of the new system will be until further steps are taken to result in the award of contracts. Probably, for the first few years, the operation of the new system will not achieve any reduction in costs below those for the current system because of the necessity for running a parallel paper system to ensure preservation of data and until final refinement of the system's software. After the tariff filing system becomes completely electronic, as contemplated, we think there will be substantial savings to the public and the industry.

Question 3. Will the procurement of the system be done on a competitive basis, or does the Commission intend to pursue a sole-source contract?

Answer. Our plan at present is to invite competitive bids in order to obtain the best price, to avoid later complaints of unfair treatment, and to avoid unfair competition by the government with the private sector.

Question 4. Since the Commission has not yet issued a Request For Proposal for the design of the system, isn't the budget request just a rough estimate of your needs in FY1988? At what point will the Commission be in a position to give the Committee a more refined budget estimate?

Answer. Our estimate of the Commission's needs for 1988 is based upon cost data and project schedules developed by American Management Systems, Inc., the Commission's contractor for the Feasibility Study. The cost estimates that were included in the feasibility study are based on a conservative estimate of what it

would cost the Commission to obtain and operate the system if we went into the market place and bought everything ourselves. Our budget request is similarly conservative. A more refined budget estimate will be feasible only after the bids on the RFPs have been received. We hope this will occur in the Fall of 1987.

Question 5. Will the Commission charge the public a user fee for access to the system, or will users be able to use the automated tariff system free of charge?

Answer. We intend to charge reasonable user fees for access to the system. The amount of the fees will depend on government policy as manifest from statutes and regulations, and will be established by rulemaking after giving the public a chance to submit comments.

Bureau of Investigation Responsibility

Question 6. The Commission is proposing to enhance its investigations program by adding five new hires to its field investigative staff in the Bureau of Investigation. In addition, four additional positions are requested for the surveillance program. What is the responsibility of the Bureau of Investigation and how does it work?

Answer. The Shipping Act of 1984 contains a number of provisions which prohibit illegal rebates and other anticompetitive and discriminatory practices by ocean common carriers and others in furtherance of the policy of the Act to provide a sound, economic, and reliable ocean transportation system for this country. The Commission has the duty and the authority to enforce these provisions. This bureau is designed to discover disruptive practices and to develop proof, using accepted law enforcement techniques, for subsequent prosecution. In fact, bureau investigators, located at strategic points, use their knowledge of shipping industry practices and intelligence provided by the Commission to serve as the first line of enforcement for the agency.

The bureau follows Commission-wide enforcement programs developed in conjunction with other components of the Commission. Based upon trade intelligence and economic monitoring of competitive conditions in shipping, certain trades, carriers, and practices are identified as likely areas of serious malpractices. Basically, investigators focus on these areas. However, investigators also must seek out other violations within their regions. Typically, investigators develop cases through review of shipping documents and tariffs, interviews, complaints, and analysis of computerized shipping statistics. Such activities are coordinated with attorneys from the Bureau of Hearing Counsel who evaluate and prosecute enforcement cases.

Memorandum of Understanding

Question 7. The budget justification states that the Commission and the Customs Service have signed a Memorandum of Understanding for the exchange of enforcement information. What

is the division of responsibility between the Customs Service and the Commission in the enforcement of the Shipping Act of 1984? Has the Commission considered delegating its enforcement and investigation responsibilities in this area to another government agency such as the Customs Service?

Answer. There is no division of responsibility between the Customs Service and the Commission in enforcement of the Shipping Act of 1984. With respect to the Federal Maritime Commission/U.S. Customs Service Memorandum of Understanding (MOU) signed on August 13, 1986, the agreement outlined therein calls for the exchange of such information between agencies that would be beneficial to the enforcement activities that reside in each of the respective agencies. The MOU, together with its implementing instructions, makes the investigative personnel of each agency aware of the enforcement responsibilities of the other agency. In this way, when Customs Service investigators come across a violative instance of the 1984 Act (e.g., a misdeclared export shipment), they notify FMC investigators in the nearest district office. By the same token, when FMC investigators come across some instance of violative activity of Customs laws (e.g., unauthorized export shipments of U.S. technology), they notify the Customs investigators in the nearest Customs office. In this way, each agency acquires additional investigative manpower in areas where their enforcement missions overlap to some degree. This activity is mutually beneficial and is complimented by each agencies' special access to certain types of information.

The Commission has not considered delegating its enforcement or investigative responsibilities. We feel that through mutually supportive liaison arrangements such as the MOU with the Customs Service, the public interest is best served. In that regard, the MOU provides for periodic review. We and the Customs Service are presently evaluating our agreement. This review will explore refinements of existing procedures and search out new areas of cooperation.

Question 8. Please provide for the record a copy of the Memorandum of Understanding with the Customs Service.

Answer. Submitted for the record is a copy of the Memorandum of Understanding with the Customs Service:

MEMORANDUM OF UNDERSTANDING

In order to strengthen each other's enforcement efforts, the U.S. Customs Service and the Federal Maritime Commission agree to exchange information relative to the agencies' regulatory and statutory authorities. The types of information to be exchanged will generally be described in each agency's implementing instruction. Such exchanges will normally occur through access to or referral of those generally described categories of information. Formal requests for specific documents and those which would require unusual resource commitments by the requested agency will be made in writing.

All exchanges of information will be made with the provision that such information will be used only for official law enforcement purposes. The information will be treated as confidential to the fullest extent permitted by law. It will, in any event, not be revealed to a third party without notice to and consultation with, the originating agency. As appropriate, officers initiating exchanges or providing requested documents will record the date; time; requestor and nature of the request, when applicable; and data provided. This information will be reasonably maintained in order to permit supervisory review.

This memorandum will be jointly reviewed two years from its effective date for currency and usefulness and a requirement for future revisions will be established at that time.

Commissioner of Customs

Chairman,
Federal Maritime Commission

Commission Authority to Act Against Discriminatory Nations

Question 9. In the budget justification it is stated that the Commission has been investigating alleged discriminatory actions of Japan, Peru, and Iceland. I take this to mean that these nations may have refused to use available U.S. shippers. What authority does the Maritime Commission have to take action against nations that discriminate against our shippers?

Answer. Section 19(1)(b) of the Merchant Marine Act of 1920 authorizes the Commission to make rules and regulations in order to "adjust or meet general or special conditions unfavorable to shipping in the foreign trade . . . which arise out of or result from foreign laws, rules or regulations . . . ." 46 U.S.C. app. § 876(1)(b). This authority enables the Commission, acting on its own motion or in response to petitions from affected carriers and shippers, to impose countervailing sanctions on the national-flag carriers of nations which unduly burden our mutual commerce with discriminatory laws and rules. The Commission's rules, which provide a procedural structure for implementation of this authority, appear at 46 CFR Part 585.

The Shipping Act of 1984 provides similar authority for Commission action in response to nations which have "unduly impaired access of a vessel documented under the laws of the United States to ocean trade between foreign ports . . . ." Section 13(b)(5) of the Act authorizes the Commission to take action it finds appropriate, including the suspension of tariffs and substantial civil penalties. 46 U.S.C. app. § 1712(b)(5). Rules implementing this authority have been published at 46 CFR Part 587. Commission action under section 13(b)(5) is subject to Presidential review and disapproval.

MARITIME ADMINISTRATION

STATEMENT OF JOHN GAUGHAN, ADMINISTRATOR

ACCOMPANIED BY:

EARNEST HAWKINS, ASSOCIATE ADMINISTRATOR FOR ADMINISTRATION

MASON G. NOTTINGHAM, DIRECTOR, OFFICE OF BUDGET

BUDGET REQUEST

Senator HOLLINGS. Our next witness is the Maritime Administration.

The final part of our hearing this morning addresses the $395,552,000 request from the Maritime Administration for fiscal 1988. They require a supplemental of $1,375,000,000 to repay the Treasury for borrowings necessary to meet the loan guarantee commitments under Title XI of the Merchant Marine Act of 1936.

Appearing on behalf of the Administration is John Gaughan, the Maritime Administrator, accompanied by Earnest Hawkins, Associate Administrator, and Mason G. Nottingham, the Director of Budget.

Mr. Gaughan, we will take your statement and file it for the record here. Please summarize it as you wish.

Mr. GAUGHAN. Thank you very much, Mr. Chairman. Mr. Chairman, actually, your opening remarks fairly well sum up the budget request including the 1987 supplemental. We are asking for a total of $396 million, which includes money for the operating differential subsidy and the ocean freight differential appropriations, for which obligations by the Government precede the appropriations process and for which the amounts to liquidate the obligations are indefinite.

We are also asking for $66,797,000 for operations training which covers the Merchant Marine Academy, the operations of the headquarters and the National Defense Reserve Fleet.

Mr. Chairman, that is a brief summary of my statement. I will be pleased to answer any questions.

[The statement of John Gaughan follows:]

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PREPARED STATEMENT OF JOHN GAUGHAN
ADMINISTRATOR
MARITIME ADMINISTRATION

Mr. Chairman and members of the committee:

I am pleased to appear before you to discuss our 1988 budget request. The Maritime Administration is responsible for the promotion of a strong U.S. merchant marine for carriage of U.S. foreign and domestic commerce and for national defense purposes. To carry out this responsibility we strive to assure; (1) an active fleet of U.S. owned and operated commercial vessels, (2) an adequate supply of licensed officers, (3) a fleet of cargo vessels which can be activated during national emergencies and (4) support to other maritime related activities that further the national interests of the United States.

The proposed budget for the Maritime Administration includes continued support of existing operating-differential subsidy contracts, payments for ocean freight differential arising from increased cargo preference provisions in the Food Security Act of 1985 (P.L. 99-198), and operations and training activities. We are also requesting a 1987 supplemental which would provide for the repayment of Treasury borrowings which were necessary to honor the Government guarantees on debt which defaulted during the continued maritime decline in 1985 and 1986. Our disciplined hiring practices during 1986 will allow us to meet our 1987 employment levels and avoid a supplemental request which would otherwise be needed to cover the cost of pay raises and retirement costs with carryover funds.

1987 Supplemental for the Federal Ship Financing Fund (Title XI)

Defaults on loans guaranteed under the Title XI program required Treasury borrowings of $1,375,000,000 during 1985 and 1986. The supplemental request will repay Treasury the amounts that have already been reflected in budget totals on budget authority and outlays and will enable us to liquidate our indebtedness. The rate of defaults is declining and we hope that the high rate of defaults is ending. We also are requesting enactment of substantive legislation and appropriations language that would prohibit new commitments under the Title XI program after FY 1987 as well as supplemental language to prohibit new commitments during 1987. Termination of new Title XI guarantee commitments reflects the Administration's goal of reducing Government interference in the credit market.

FY 1988 Request Overview

We are requesting appropriations estimated to total $395,552,000. This includes funds for two accounts, Operating-differential Subsidy (ODS) and Ocean Freight Differential (OFD) appropriations, for which the obligations by the Government precede the appropriation process and for which the amounts to liquidate obligations are indefinite. Consequently, we are requesting that those appropriations be made on a permanent, indefinite basis. We expect to make payments against obligations which will have already been incurred amounting to $250,300,000 for ODS and $78,455,000 for OFD. In addition, a total of $66,797,000 is requested for Operations and Training expenses. Discontinuance of Federal support for the State Marine Schools is proposed except for student incentive payments for currently enrolled students. As you may recall, we proposed termination of the Research and Development activity in 1987 and no appropriation for this account is requested in 1988.

Ocean Freight Differential

The Food Security Act of 1985 mandated an increase in carriage by U.S. flag ships of P.L. 480 and other concessional agricultural cargoes from 50 percent to 75 percent in three annual increments of 10 percent, 10 percent, and 5 percent. Ocean Freight Differential (OFD) is the difference between U.S. and foreign flag costs of ocean transportation. The Act requires that MARAD borrow from Treasury and make payments to USDA in order to finance OFD for shipments over and above the USDA financed 50 percent. These payments for carriage up to 75% over three years are authorized to be made without Congress appropriating funds in advance. We estimate that the first program year (April to March) will result in payments of $29,000,000 for carriage of the additional 10 percent. We estimate that the second program year increase (10 percent) will result in payments of $48,513,000. These costs, coupled with $942,000 Treasury interest charges will result in appropriation accruals of $78,455,000 for the first two years of operation.

Appropriation language for this account is also proposed on a "such sums as necessary" basis for 1988 and thereafter. The Food Security Act of 1985 mandated that payments for this program be made and the Government is liable for these payments irrespective of the amounts appropriated. The costs vary depending on the effects of changing crop prices on the volume of shipments. In addition, variances in the ocean freight differentials depend on uncontrollable foreign competition. Finally, since different appropriation bills are involved, Congressional appropriations action on USDA commodity export programs may not be reflected in the related appropriations for MARAD. Because of these factors, it is proposed that the OFD account include no appropriations for fixed amounts.

Operating-differential Subsidies

Our estimates for 1988 costs of existing subsidy contracts amounts to $250,300,000.

The international shipping environment in which our subsidized ship operators must compete continues to be depressed. Thus, we estimate that the volume of subsidized ship operations will be reduced to 68.3 ship-years in 1987 at a cost of $247,100,000. This compares with $320,000,000 appropriated by Congress. Our 1988 estimate of $250,300,000 reflects further changes in costs for operating U.S.-flag ships and the continued depressed state of the industry. ODS reform initiatives under consideration within the Administration are expected to bolster the U.S. merchant marine industry so that it may become more competitive with foreign-flag operators.

The funds required for this account are to pay for the subsidized cost of voyages performed under long term contracts which Congress has authorized us to enter without advance appropriations. In the past, annual appropriations to fund these contracts have only served to authorize us to pay bills due. Costs are volatile due to unpredictable changes in the cost of foreign competition and the varying economic conditions such as that being experienced in 1987. Therefore, the President's budget proposes that funds for this account be appropriated on a "such sums as necessary" basis beginning in 1988 and thereafter. Necessary authorizing legislation is being proposed. Should 1988 program authority exceed our estimates, the proposed appropriations language would enable us to pay the resulting bills arising from these long-standing contracts. Similarly, we would no longer have to withdraw unused appropriations.

Operations and Training

Our request for Operations and Training amounts to $66,797,000; which is $2,797,000 above the 1987 appropriation. No amounts have been proposed for deferral from 1987. The request includes $2,647,000 for the full year cost of pay increases and the new Federal employees retirement system and other built in changes totaling $1,150,000.

Funds requested for the U.S. Merchant Marine Academy include an increase of $750,000 for the first year cost of renovating their 43 year old heating distribution system and plant. During 1986, MARAD conducted a technical survey to determine the best option between replacing or renovating these facilities. It was determined that the renovation option was the least costly and therefore the most desirable option. We are also requesting $1,250,000 to complete the Academy barracks renovation project. This will be the third and final phase of this work which will mainly be devoted to completion of fire safety modifications.

We are again proposing discontinuance of Federal support for the State Marine Schools. We have an ongoing commitment to fund student incentive payments for existing students for the duration of their training. FY 1988 payments will be made to these students from unused 1986 and 1987 appropriations. Since graduates cannot find at-sea employment, continued Federal support for the State schools is inconsistent with the urgent need to reduce Federal spending where feasible.

We are requesting $3,500,000 to initiate study projects. $2,000,000 is requested for technical studies which directly benefit the Government maritime programs; for example, projects related to maritime safety and the reduction of the cost of transporting preference cargos. Finally, $1,500,000 is requested

to assist me in developing and evaluating major policy and program initiatives in a centrally managed program which would involve several segments of my staff and related contract support. They would help develop more effective policy strategies to our declining U.S-flag fleet, enhanced management of Federal Ship Financing Fund assets, as well as continued support for our ports and market development programs.

Finally, our budget includes $2,500,000 for the second year of a multi-year program to provide adequate facilities at the three national defense reserve fleet sites. Funds for the first year of this program were provided in the Navy's 1987 appropriation for Operations and Maintenance rather than in MARAD appropriations after their deletion by the MARAD authorization committees. The Navy 1987 funds will be used for dredging projects at the Beaumont, Texas and James River, Virginia sites as specified by Congress. Follow-up funding is again requested in the Maritime Administration budget to continue this multi-year program. The major elements of our program include additional mooring stakes, expanded electrical systems, replacement of crane barges, and additional site work required to support the increased operating requirements of the National Defense Reserve Fleet Program.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or other members of your committee may have.

AMERICAN SHIPBUILDING APPLICATION

Senator HOLLINGS. Very good.

Senator Inouye.

Senator INOUYE. Thank you very much.

Mr. Chairman, many of us, especially those of us on the Commerce Committee, were very pleased to learn that the American Shipbuilding Company has filed for vessel mortgage insurance under Title XI. I am certain you will agree that without the guarantees of Title XI, no lending institution in the United States would finance this type of project.

Assuming that the American Shipbuilding application is consistent with your rules, I want the record to show that I support it, and I believe I speak for many of my colleagues on the Commerce Committee.

As we all know, there are only four commercial deep-sea vessels presently under construction in U.S. yards, and our U.S.-flag cruise fleet consists of only three ships. Therefore, the American shipbuilding project will not only give a badly needed boost to our shipbuilding industry, but it will actually double the size of our cruise industry, and it will mean thousands of jobs, seagoing and shoreside.

Together with several of my colleagues, we sponsored the legislation that made it possible for the Independence and the Constitution to come into our domestic trades, and as you are well aware, I was one of those who worked out the compromise cruise legislation which passed the Senate last year. That compromise was fashioned and adopted by the Commerce Committee on the assumption that the American Shipbuilding project would get underway this year. That was one of the major considerations.

Committee members were very emphatic in their view that they didn't want to revisit cruise ship legislation again. It has been a thorn in our side for several years now. I am pleased to note that the administration supports the Jones Act, and to me, approval of this application would be a very concrete way of showing that support.

Where is the application at this stage?

Mr. GAUGHAN. Mr. Chairman, American Shipbuilding has filed an application. It is presently under review, and they are providing the necessary market study, financing arrangements and so forth.

It is probably the most active Title XI application that I have, sir.

APPLICATIONS UNDER SECTION 805(A)

Senator INOUYE. I have a few questions. This would be a bit parochial, also. What is the policy of MARAD toward granting applications for written permission under Section 805(a) if it appears that additional service in a trade would jeopardize service to small ports which are served at a common rate with a major port? To be more specific, Honolulu, major port; Nawiliwili and Hilo, minor parties.

At the present time, Matson has common rates for Honolulu and Nawiliwili. APL gets into the picture; they will just service Honolulu.

Do you take that into consideration? Obviously, that would jeopardize common rates with the outlying islands.

Mr. GAUGHAN. Mr. Chairman, I will very honestly tell you that that is, for me, a question of first impression. I know APL has just recently filed an application to get into the trade, and I honestly could not tell you whether that is a consideration from past 805 practices or not and I will look into it and respond directly to your staff and to the committee.

I understand the intent of the question. I do not honestly know myself if that is a consideration. I could ask one of my chief counsels. This is Mr. Bob Patton, the Deputy Chief Counsel.

Mr. PATTON. APL's application has been filed pursuant to Section 805(a) and it will be noted in the Federal Register. The opportunity will be available for interested persons to respond. If there is opposition to the application, the statute provides for a hearing. Those issues——

Senator KASTEN. I am having a difficult time hearing. Maybe a little slower.

Mr. PATTON. The application has been filed by APL. The normal process is that a notice be placed in the Federal Register, at which time interested parties who support or oppose the application can file comments. Those comments can result in a hearing pursuant to the statute in which the parties would present their positions. A recommended decision would be made. If it goes to an administrative law judge, the decision would come to the Maritime Administration.

Precisely what all would be involved in the statutory standards, which is rather vague in terms of what those objectives and policies are, would have to be considered in that context.

Mr. GAUGHAN. Certainly, Senator, this point having been raised as a comment, it would have to be addressed in whatever decision is made. It could be addressed in any number of ways, one of which is that that is not a consideration. But as a comment it would have to at least be looked at and responded to in one way or the other.

Senator INOUYE. I would appreciate that.

OVERTONNAGING BY SUBSIDIZED VESSELS

APL operates subsidized vessels. Matson has individualized vessels. In dealing with applications like the APL application in a section 805(a) hearing, will you give consideration to any adverse consequence of overtonnaging in that trade by a subsidized vessel?

Mr. PATTON. I am sure that that would be raised by the parties. It would have to be considered within the context of the statute.

Senator INOUYE. I have a couple of other questions, but I will just submit those, but I just wanted to get these for the record.

Senator HOLLINGS. Thank you.

Senator INOUYE. I have to look after my Matson Lines.

LIMITATIONS ON TITLE XI

Senator HOLLINGS. You are looking out for the country. You are drawing my attention to the American Shipbuilding application. Specifically, Mr. Gaughan, I see in the President's budget, during the fiscal year 1987, no new commitments of guaranteed loans will be made, and then you have the legitimate and properly documented application, I assume, of the American Shipbuilding Company.

Which controls, the law and the policy, or this budget statement?

Mr. GAUGHAN. The law, sir.

Senator HOLLINGS. Sir?

Mr. GAUGHAN. The law.

Senator HOLLINGS. Thank you. That is what I wanted to know. I never heard of such nonsense. We have been trying to encourage domestic shipbuilding. That is why we held up on all these foreign vessels being relicensed. Anybody, I, can quit the Congress and get the license and be rich the rest of the time.

It is a question of fundamental policy, and we have tried to hold the line, we, the 100th Congress. The very first Congress, that is exactly what they did, required that all shipping be carried in American vessels from the United States of America so we could develop our Maritime industry. We forget how we started. The British did it and continued to do so. These jackasses all over the countryside hollering "free market, free market," there ain't no free market.

You have got to have a comparative advantage to use our Government or your shipping for your manufacture so that the playing field can be level and we have a fair chance to compete. I am glad to hear your answer on that, because we are not controlled by these budgetary statements, we are controlled by the formative law and policy as enunciated by the Congress itself.

Thank you. Excuse me. Mr. Chairman?

Senator RUDMAN. No, that is very interesting. [Laughter.]

Senator HOLLINGS. I have got some other questions. I wanted to yield to you and Bob.

Senator RUDMAN. I find this very interesting. It is an area I am not particularly familiar with, although I got familiar with MARAD last year.

Senator HOLLINGS. That is right.

LETTER FROM SHIPBUILDERS COUNCIL OF AMERICA

[CLERK'S NOTE: Subsequent to the hearing, the subcommittee has received a letter from John J. Stocker, President of Shipbuilders Council of America, with regard to maritime aspects of the Administration's budget for FY 1988. By direction of the chairman, the letter has been printed in the record at this point.]

[The letter follows:]

Shipbuilders Council of America
1110 Vermont Avenue, N.W.
Washington, D.C. 20005-3553
202-775-9060

1987 FEB 24 PM 1:37

February 20, 1987

Dear Mr. Chairman:

The Shipbuilders Council of America, the national trade organization representing the principal domestic shipbuilders, ship repairers, and the vendors to those industries, appreciates the opportunity to comment on the maritime aspects of the Administration's budget request for fiscal year 1988. A listing of the membership of the Council is enclosed.

The Adminstration's proposed budget to fund the various maritime promotional programs authorized by the Merchant Marine Act of 1936 contains no surprises this year. In fact, the proposed budget represents a continuation of the failed promotional policies of the past six years. Those policies have resulted in numerous bankruptcies for private U.S.-flag operators, the lowest level of merchant ship construction in private domestic shipyards in years with a corresponding decline in the number of facilities and skilled work force, and a serious falloff in the number of billets for American seafarers.

As to those promotional programs of interest to shipbuilding, the Administration seeks no funding for the Construction-Differential Subsidy (CDS) program. This was anticipated and tracks the pattern that dates back to 1981. The budget document also indicates that the Administration wants to eliminate the Federal Ship Mortgage Guarantee (Title XI) program. This was likewise anticipated since the Administration vetoed H.R. 4175, the Maritime Authorization Act for 1987, for failing to repeal the Title XI program.

Zero budgeting the CDS program and attempting to eliminate the Title XI program will not lead to a revitalization of the commercial segment of the maritime industry. Indeed, these actions will lead to a further decline in the shipyard mobilization base essential for national security. This base is already at a dangerously low level.

The Shipbuilders Council will be the first to admit that the CDS and Title XI programs were far from perfect. There were problems with the basic law as well as how the Maritime Administration implemented it. These shortcomings are endured by the high level of defaults in Title XI programing in the past three years. The committee should be aware however, that the majority of those defaults were energy related. That sector has been severely affected by the decline in world oil prices. On the other hand, they are better than no programs at all to stimulate commercial shipbuilding, which happens to be the case if the Administration has its way on the subject.

The Title XI program remains an important aid to assist operators to finance the construction in U.S. shipyards of complex merchant ships. The Maritime Administration has ample unused guarantee authority as its disposal. Currently, an application by The American Ship Building Company for Title XI is pending with the agency to assist in the financing of the construction of two 800-passenger ships for the Hawaiian inter-island cruise trade. This $216 million project represents the first viable effort to build in the United States modern, efficient passenger ships in three decades. Approval of this application would greatly assist the economics of the project. The project represents 2,000 shipyard jobs and will provide hundreds of seagoing billets.

Mr. Chairman, the Shipbuilders Council urges you and your colleagues not to accede to the Administration's effort to eliminate the Title XI program. The Council requests that this letter be included in the record on this legislation.

Sincerely,

John J. Stocker
President

Enclosure

The Honorable Ernest F. Hollings
Chairman
Subcommittee on Commerce, Justice, State,
The Judiciary, and Related Agencies
Committee on Appropriations
S146A - The Capitol
Washington, DC 20510-6025

SHIPBUILDERS COUNCIL OF AMERICA

Membership

REGULAR MEMBERS

ADDSCO Industries, Inc.
Post Office Box 1507
Mobile, AL 36601

The American Ship Building Company
Lincoln Pointe Building - Suite 800
2502 Rocky Point Road
Tampa, FL 36607
Tampa Shipyards, Inc., Tampa, FL

Avondale Industries, Inc.
Avondale Shipyards Division
Post Office Box 50280
New Orleans, LA 70150

Bath Iron Works Corporation
700 Washington Street
Bath, ME 04530

Bay Shipbuilding Corporation
605 North Third Avenue
Sturgeon Bay, WI 54235

Bethlehem Steel Corporation
Marine Construction Group
Bethlehem, PA 18016
Beaumont, TX
Sparrows Point, MD

Capital Marine Corporation
Post Office Box 498
Chester, PA 19016

Continental Maritime Industries, Inc.
Pier 50-54
San Francisco, CA 94107

General Dynamics Corporation
Pierre Laclede Center
St. Louis, MO 63105
Electric Boat Division, Groton, CT
and Quonset Point, RI

General Ship Corporation
400 Border Street
East Boston, MA 02128

Ingalls Shipbuilding Division
Litton Industries
Post Office Box 149
Pascagoula, MS 39567

Jacksonville Shipyards, Inc.
750 East Bay Street
Post Office Box 2347
Jacksonville, FL 32203

The Jonathan Corporation
P.O. Box 1839
Norfolk, VA 23501

Lockheed Shipbuilding Company
2929 Sixteenth Avenue, SW
Seattle, WA 98134

Marinette Marine Corporation
Ely Street
Marinette, WI 54143

Metro Machine Corporation
Box 1860
Norfolk, VA 23501

National Steel & Shipbuilding Company
Harbor Drive at Twenty-Eighth Street
Post Office Box 80278
San Diego, CA 92138

Newport News Shipbuilding
4101 Washington Avenue
Newport News, VA 23607

Norfolk Shipbuilding & Drydock Corporation
Post Office Box 2100
Norfolk, VA 23501

Peterson Builders, Inc.
101 Pennsylvania Street
Post Office Box 47
Sturgeon Bay, WI 54235

Robert E. Derecktor of Rhode Island, Inc.
Coddington Cove
Middletown, RI 02840

Southwest Marine, Inc.
Foot of Sampson Street
Post Office Box 13308
San Diego, CA 92113
San Francisco, CA
San Pedro, CA

Todd Shipyards Corporation
Todd Pacific Shipyards Corporation
One Evertrust Plaza
Jersey City, NJ 07302
Galveston, TX; Los Angeles, CA;
San Francisco, CA; Seattle, WA

ALLIED INDUSTRIES MEMBERS

Bird-Johnson Company
110 Norfolk Street
Walpole, MA 02081

York International Corporation
631 South Richland Avenue
Post Office Box 1592
York, PA 17405

Colt Industries, Inc.
1901 L Street, NW
Washington, DC 20036

Combustion Engineering, Inc.
Prospect Hill Road
Windsor, CT 06095

Eaton Corporation
Cutler-Hammer Products
17919 Pond Road
Ashton, MD 20861

General Electric Company
1331 Pennsylvania Avenue, NW
Washington, DC 20004

Gould, Inc.
Systems Protection Division
13500 Roosevelt Boulevard
Philadelphia, PA 19116

Hopeman Brothers, Inc.
Post Office Box 820
Waynesboro, VA 22980

IMO Delaval, Inc.
3450 Princeton Pike
Post Office Box 6550
Lawrenceville, NJ 08648

Jamestown Metal Marine Sales, Inc.
4710 Northwest Second Avenue
Boca Raton, FL 33431

Jered Brown Brothers, Inc.
1300 Coolidge
Post Office Box 2006
Troy, MI 48007-2006

Lake Shore, Inc.
Post Office Box 809
Iron Mountain, MI 49801

MacGregor-Navire (USA), Inc.
135 Dermody Street
Cranford, NJ 07016

Raytheon Service Company
Suite 1500
1215 Jefferson Davis Highway
Arlington, VA 22202

SP-Marine
Aerospace & Marine Group
Route 29 North
Charlottesville, VA 22907

Westinghouse Electric Corporation
Hendy Avenue
Sunnyvale, CA 94088

Worthington Pump Division
Dresser Industries, Inc.
401 Worthington Avenue
Harrison, NJ 07029

AFFILIATE MEMBERS

Alpha Technical Services, Inc.
4866 Factory Drive
Fairfield, OH 45014

The Bingham Group
Two Crystal Park - #600
2121 Crystal Drive
Arlington, VA 22202

Maersk Line, Limited
One World Trade Center
New York, NY 10048

McLean Contracting Company
1301-3 Fidelity Building
Baltimore, MD 21201

PacOrd, Inc.
2700 Hoover Avenue
National City, CA 92050

Poten & Partners, Inc.
711 Third Avenue
New York, NY 10017

Seacoast Electric Supply Corporation
Station Plaza
Rye, NY 10580

Seyfarth, Shaw, Fairweather & Geraldson
1111 19th Street, NW
Washington, DC 20036

Standard Marine Services, Inc.
One Ingham Avenue
Bayonne, NJ 07002

Sulzer Bros., Inc.
200 Park Avenue
New York, NY 10166

NAVAL ARCHITECT MEMBERS

Gibbs & Cox, Inc.
119 West 31st Street
New York, NY 10001

JJH Inc.
1101 Kings Highway North
Cherry Hill, NJ 08034

John J. McMullen Associates, Inc.
One World Trade Center
New York, NY 10048

M. Rosenblatt & Son, Inc.
350 Broadway
New York, NY 10013

ASSOCIATION MEMBERS

The American Waterways Operators, Inc.
1600 Wilson Boulevard
Arlington, VA 22209

New York and New Jersey Dry Dock Association
c/o Rodermond Industries
Foot of Henderson Street
Jersey City, NJ 07302

South Tidewater Association of Ship Repairers
Post Office Box 5637
Chesapeake, VA 23324

SUPPLEMENTAL FUNDS

Senator RUDMAN. I want to take kind of the flip side of this whole discussion. You are requesting $1,448,000,000 in supplemental funds to repay the Treasury for funds borrowed for Federal ship loans that are in default. You have to repay the U.S. Treasury.

I understand that we are not going to get scored for that on this subcommittee, but what we will simply do is foot the bill which increased the deficit by nearly a billion and a half dollars.

How did this happen? I mean, how did we get such enormous defaults on the loans? I mean, not even the SBA has done that badly lately. How does that happen? I truly want to know.

Senator HOLLINGS. Tell him about it.

Mr. GAUGHAN. Senator, of the one billion five hundred and some million dollars in defaults, all but $300 million of that is directly attributable to the energy industry in terms of defaults that have come about as it relates to drilling rigs, to offshore oil and gas vessels, to LNG vessels and so forth.

ADDITIONAL DEFAULTS

Senator RUDMAN. Are there any other large defaults lurking out there after we write off this billion and a half?

Mr. GAUGHAN. Senator, there could very well be additional defaults lurking out there, and I will give you the most present example. The United States Lines Company, which is a premier ocean liner company, is in Chapter 11 reorganization, and while we are working with them, we are still at risk to the tune of about $100 million should they not be able to reorganize.

Senator RUDMAN. What is the total portfolio, if that is the right word?

Mr. GAUGHAN. The total permissible portfolio under Title XI is $9.5 billion.

Senator RUDMAN. What currently is owed that is guaranteed?

Mr. GAUGHAN. Outstanding right now is about $5 billion.

Senator RUDMAN. All right. So about $5 billion is out, including this billion and a half?

Mr. GAUGHAN. No, not including this billion and a half. That is correct.

Senator RUDMAN. It is in addition to this, which makes $6.5 billion.

Senator HOLLINGS. That is our exposure.

Senator RUDMAN. Take that $6.5 billion, and if my math is right, we have got a roughly 25 to 28 percent default rate on the portfolio at this point.

Mr. GAUGHAN. Just under 25 percent.

Senator RUDMAN. I have no thoughts about how you fix that or how you ameliorate your future losses, but I suppose one way is to eliminate the guaranteed loan program. Once you eliminate the guaranteed loan program, you dramatically reduce your exposure. I expect that there would be some opposition to that, even on this subcommittee.

Senator INOUYE. Yes, sir.

OUTLOOK FOR DEFAULTS

Senator HOLLINGS. You get the title to the ship?

Mr. GAUGHAN. That is correct.

Senator HOLLINGS. Then you resell it?

Mr. GAUGHAN. We attempt to resell equipment. We also hold equipment because we try to be sensitive to the market place.

Senator HOLLINGS. Right. You don't want to further throw other ships into bankruptcy, and therefore get it.

If you don't mind yielding at that point, how many ships do we have Title to at MARAD now, and how many more would be in default? What is the outlook here for this year?

Mr. GAUGHAN. The outlook for this year is, we have had about $68 million in defaults for the first quarter of this fiscal year. We had projected $600 million in defaults. It may not go that high. But it is reflective, sir, of a depressed, extremely depressed industry in all segments and restructuring that has been going on. It has happened in the inland barge industry and certainly in the oil and gas industry. At present, you can buy a rig for 10 percent of what it is worth.

ELIGIBILITY FOR TITLE XI

Senator RUDMAN. Your authorization for the loan guarantee program includes ships and rigs and LNG carriers and so forth.

Mr. GAUGHAN. That is right. That is right.

Senator RUDMAN. When was that statute changed to broaden that authorization?

Mr. GAUGHAN. 1972 is roughly when drill rigs and other types were deemed eligible.

Senator RUDMAN. It just seems like, and I probably know less about this than I do about agriculture, and that isn't very much, but it just seems to me that the kind of a basic policy that Senator Inouye and Senator Hollings are strong supporters of is to encourage the merchant shipping fleet of this country.

When you start to increase the jeopardy by tying it to something as dynamic as the energy industry, by starting to guarantee essentially oil drilling and the carrying of oil—not the carrying of fuel, I am talking about the drilling and the rigs—you really start to jeopardize the underlying statutory reason for the whole MARAD program, I would think.

The program of MARAD was to give us a strong merchant fleet, and certainly nobody can disagree with that. But when you start tying it to other types of things that have this kind of default rate, then you are jeopardizing the whole situation.

Senator HOLLINGS. Right back to 1972, 15 years ago, you would try next to anything to eliminate the energy crisis we had, to get the rigs and the shipments and anything else.

Mr. GAUGHAN. In fairness, sir, this program has been in existence for some 50 years. It was not until roughly 1985, where the fund itself was not able to cover any losses.

Senator RUDMAN. That is, of course, my point. The primary reason for your fund is not the energy industry; the primary reason is the shipping industry.

Mr. GAUGHAN. There have been changes to the regulations that govern applications for Title XI. There is a marketplace test, equity requirement and so forth, sir.

FUNDING FDR NDRF FACILITIES

Senator RUDMAN. One other question on a totally different subject. Why are you requesting $2.5 million for three national defense reserve fleet sites? Why doesn't the Navy put it in their budget to pay for the maintenance of the reserve fleet? Even though MarAd provides the bases, why don't they provide the funds? They spill that much over there.

Mr. GAUGHAN. Senator, the NDRF, the National Defense Reserve Fleet program is under the direction and control, under statutory obligation of the Maritime Administration, and consequently, it is our view that the funds needed to maintain or upgrade the facilities that house those some 299 ships is appropriate in our budget.

Senator RUDMAN. In other words, you don't separate the maintenance of the ships from the maintenance of the facilities; you do both?

Mr. GAUGHAN. The facilities are literally just open water anchorages such as in the James River, so when you talk about the facility, you are, in fact, talking about the ships, also, because what we are looking at is dredging so that the larger vessels that are being acquired for the ready reserve force can come in and out, the mooring stakes, the electricity and so forth.

Senator RUDMAN. You are not doing maintenance on the ships themselves?

Mr. GAUGHAN. We do maintenance on the ships.

Senator RUDMAN. I would question whether the maintenance on the ships, no matter what that amount, should be done with your money. We have enough trouble with the defense budget when you have defense in the energy budget, and MarAd and NASA and probably everywhere but NIH.

Senator HOLLINGS. Are they kept at a mooring where dredging would not be required?

Mr. GAUGHAN. I had not looked into that, Senator. Take the James River. I don't know of a location in the Newport News area where you could accommodate the 130 vessels that are there, or whatever, without some disruption to commercial cargo movements and so forth.

Senator HOLLINGS. I am not just looking at that area, how about Portsmouth?

Senator RUDMAN. Or Charleston, South Carolina.

Senator HOLLINGS. There has been a change. [Laughter.]

Senator HOLLINGS. Senator Kasten?

Senator KASTEN. Mr. Chairman, thank you. I have no questions at this time.

TITLE TO AND SALE OF VESSELS

Senator HOLLINGS. How many, then, Mr. Gaughan. How many ships? I would like to get that. How many vessels do you have titled to you? In other words, I will put it this way: Between the years 1984 and 1986 and before the year 1987, the numbers of vessels to which MARAD has titles, the number sold, the amounts recovered through the sales and the proportion of the payoff amount recovered through those sales, do you have any general number? I am trying to get the volume of business, what is going on.

Mr. GAUGHAN. Right now, I have title to 24 vessels.

Senator HOLLINGS. Twenty-four vessels?

Mr. GAUGHAN. Yes. These are vessels that have been defaulted which we had paid off and then foreclosed on so that we now have them available for immediate sale.

Senator HOLLINGS. So in bankruptcy you might get them, 24.

Senator RUDMAN. We can't maintain them.

Mr. GAUGHAN. We have 48 vessels that are currently owned by MARAD but are either chartered out to third parties or awaiting the sale closure. With respect to optaining title for additional vessels, there are approximately an additional 235 vessels, of which 217 of those are inland barges.

Senator RUDMAN. Is there a market for those?

Mr. GAUGHAN. The market, surprisingly enough, has begun to firm in the inland barge industry, Senator. One of the strategies we try to use is when we offer vessels for sale, if an operator will agree to scrap older equipment to take in new equipment, we look at that as an attractive

proposition, so that you are not just adding to the overhang of oversupply in the market, and you are getting newer equipment in.

Senator HOLLINGS. But listening to an expert on the TV it seems like we need to do some long-range planning. He predicted within another 2 or 3 years another crisis. In other words, what is worthless here in 1987 by 1990 is going to be valuable.

There is no reason to let the market, scrap things and come back here and we get more loans to rebuild all over again and go through the same act. You will be in a position to make that kind of judgment or comment, but I hope you will look at that.

Mr. GAUGHAN. Senator, we have a program right now; this is on drill rigs—I just use that as an example—where I brought a young man in who had experience both as a master of oceangoing rigs and then working for one of the companies in maintenance of them. I asked him if we get them back to look at them and determine whether they are junk right now or if they are worth preserving.

It is very expensive to keep a rig in lay-up, but we have worked out arrangements with some of the companies where, while they have defaulted on the rigs, that they are maintaining those rigs in a lay-up status, and we are not letting go the market, recognizing that we have a responsibility, a fiduciary responsibility to try to recover and safeguard the American taxpayers dollars that went into it and look to the future.

So we have tried to strike a balance of maintaining and preserving that equipment which, 2 or 3 years from now, would be worthwhile. Some of the marsh rigs and so forth, they don't have a large value, and but we do attempt to discriminate.

REPORTS TO CONGRESS

Senator HOLLINGS. All right. It says in Section 208 of the Merchant Marine Act that you will report to the Congress by April 1 of each year. Can we receive the fiscal 1986 report by April 1 of this year? You have been rather tardy on those, and we would like to get them. We use them. What is the matter?

Mr. GAUGHAN. Senator, I am confident that that report will be to the President of the Senate in manuscript form by April 1. Last year it didn't get printed until July, but if that happens again this year, I will make sure that the committee has the manuscript form. We are working on it and trying to alert all the clearance process people above us of the interest of the committee in having it in a timely fashion.

ELIMINATION OF SUPPORT FOR MARITIME OFFICERS

Senator HOLLINGS. Very good. I have some other questions to file on behalf of the committee. Just one: Why do you continue to eliminate support of the Maritime officers?

Mr. GAUGHAN. In this time of budget austerity, Senator, the supply of officers being generated from a combination of the Merchant Marine Academy, the State academies and the union-supported schools far exceeds the present need for those officers.

With the Merchant Marine Academy as a mandatory, long-term Federal program of national scope where we are able to adjust the enrollment to meet demands and so forth, it is the determination that there is no need for direct Federal support of the State academies, which goes primarily to the school ships which they use as training platforms.

Senator HOLLINGS. You don't think we need those Maritime officers?

Mr. GAUGHAN. In looking at, the studies that are there, the shortfall in manpower is not in the officer ranks; it is in the unlicensed ranks, Senator, and I think it really comes down to trying to take a long-term look at it.

The fact is that in order to maintain the status quo of five school ships, you are looking potentially at $60 to $100 million in replacement costs down the road, to which those schools for both now and in the foreseeable future are graduating people to which there really aren't jobs for, in seagoing positions.

LETTER FROM STATE UNIVERSITY OF NEW YORK-MARITIME COLLEGE

[CLERK'S NOTE: Subsequent to the hearing, the subcommittee received a letter from F. H. Miller, Rear Admiral-State University of New York-Maritime College, with regard to replacing the training ship for the New York Maritime College. By order of the chairman, the letter will be printed in the record at this point.]

[The letter follows:]

STATE UNIVERSITY OF NEW YORK
MARITIME COLLEGE
FORT SCHUYLER, BRONX, NY 10465
TELEPHONE (212) 409-7200

REAR ADMIRAL FLOYD H. MILLER, U. S. N. (RET.)
PRESIDENT

20 March 1987

The Honorable Ernest F. Hollings
Chairman
Senate Appropriations Subcommittee on Commerce,
Justice, State, Judiciary and Related Agencies
Suite S 126
The Capitol
Washington, D.C. 20515

Dear Senator Hollings:

This letter is in regard to the plan for a replacement training ship for The State University of New York Maritime College.

Please recall that in 1984, $8.5 million was appropriated for acquisition and preconversion costs for a training ship intended to replace the present outmoded vessel. At that time, because no Federally owned vessels were likely candidates, only $1 million could be used for preconversion after the use of most of the funds for purchase of a ship. Now that there is a very real possibility that a Federally owned vessel can be made available, a supplemental bill is requested to change the former appropriations language so that the total funds previously appropriated can be used for conversion and/or purchase. Additional funding will be required to place the vessel in service and complete the conversion. The Maritime Administration expects to announce the ship selected on 10 May 1987.

Unofficially, the Maritime Administrator has stated $23 million will be required to deliver the ship. Given the $8.5 million, then an additional $15 million is required. I take issue with that requirement. I believe a lesser amount can be estimated.

I strongly believe that the Maritime Administrator is using the PATRIOT STATE, Massachusetts Maritime Academy's ship, as his yardstick. PATRIOT STATE was poorly designed and the conversion was totally mismanaged. In fact, today that ship is still undergoing correction of previous design deficiencies, all at additional cost. At no time during the design and conversion (pre-delivery) process was the new operator, Massachusetts Maritime Academy, involved.

I strongly recommend that the idea set forth by Senators Laxalt and D'Amato in a colloquy on the Senate floor on 20 June 1985 be established as a requirement for the funding. The Senators fully agreed and suggested that New York Maritime College be involved in the design and supervision of the conversion to ensure that it was not only done expeditiously but that unnecessary conversion work not be accomplished. With our involvement it can be done in a more cost-effective manner.

I might also suggest that the high conversion costs noted above have been projected to kill this necessary project. Since the funds were appropriated in 1984, the Maritime Administration has tried twice to either defer or impound the funding. The Congress denied this request once and the Comptroller ruled impoundment illegal.

Your support is earnestly solicited for a change in language and additional funds for conversion in the Fiscal Year 1987 Supplemental Appropriations Bill.

Sincerely,

F. H. Miller

F. H. Miller
Rear Admiral, USN (Ret.)

ELIMINATION OF RESEARCH AND DEVELOPMENT

Senator HOLLINGS. I have got one other one, because I remember well the date and time Senator Inouye when we walked out on the floor of the Senate and said, "Solar energy, I vote aye," for solar, everybody was running around, shouting "solar". They wanted to identify.

Now they want to identify with research. We walk up on the floor and put in an amendment saying, "We will have research for you, you, you," anybody, just research. I can get a majority vote, and you eliminate it in your budget. Why? Just when everybody is coming in style, now you are going out of style.

Mr. GAUGHAN. Senator, there are many people who have input into my budget. [Laughter.]

LETTER FROM SENATOR TED STEVENS

[CLERK'S NOTE: Subsequent to the hearing, the subcommittee received the following letter from Senator Ted Stevens with regard to construction differential subsidies. By order of the chairman, the letter has been printed in the record.]

[The letter follows:]

MARCH 31, 1987.

Hon. ERNEST F. HOLLINGS,
Chairman, Subcommittee on Commerce, Justice, State, and Judiciary, Committee on Appropriations, U.S. Senate, Washington, DC.

DEAR FRITZ: It has come to my attention that the House Appropriations Committee has attached a substantive amendment to the fiscal year 1987 supplemental appropriations legislation relating to construction differential subsidies [CDS].

The Department of Transportation has issued regulations which permit vessels constructed with CDS to operate in the domestic trade if the subsidies are repaid. The Supreme Court has held that the Secretary of Transportation does have the authority to issue regulations governing the repayment of CDS subsidies, provided that the regulations are consistent with the purposes and policies of the Merchant Marine Act of 1936.

The U.S. Court of Appeals for the District of Columbia has recently concluded that the Secretary has failed to adequately explain how the regulations are consistent with the policies embodied in the Merchant Marine Act. The court of appeals has delayed the effective date of its decision until July 16, 1987, in order to provide the Secretary with another opportunity to address this issue.

The House amendment is a direct intrusion into a judicial proceeding between private parties and the federal government. The amendment prohibits the Secretary of Transportation from responding to the court of appeals. Any action on the CDS repayment rule should be postponed until the court of appeals has issued a final decision. I strongly urge that the House amendment not be included in the Senate version of the supplemental.

With best wishes,

Cordially,

TED STEVENS.

SUBMITTED QUESTIONS

Senator HOLLINGS. The additional questions which the members have will be inserted in the record at this point.

[The following questions were not asked at the hearing, but were submitted to the Administration for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

Operating-differential Subsidies

Question: What limits now exist on the amount of contracts that the Secretary of Transportation may award for Operating Differential Subsidy (ODS)?

Answer: Section 603 of the Merchant Marine Act, 1936 as amended, authorizes the Secretary of Transportation to enter into long-term contracts for periods not to exceed 20 years. There are several specifications such as limiting the types of costs covered under these contracts but no overall dollar limit on the program.

Question: You requested the establishment of a permanent, indefinite appropriation in lieu of annual appropriations to liquidate obligations for Operating Differential Subsidies. What benefits would be derived from a permanent appropriation?

Answer: This provision would serve to make it clear that the Government's ability to pay bills already obligated under the 20 year ODS contracts will not be constrained. For example, the estimates for 1988 reflect the current downturn in international shipping. Should we experience a more favorable economic climate, we would want to be able to pay the bills authorized under the existing long-term contracts. We have had to curtail payments due to unforeseeable increases in the past. Recently, due to the decline we are now experiencing, the actual costs have been less than the appropriations and we have had to write-off excess appropriations at the end of the year.

Question: The policy of the present Administration calls for no expansion of the ODS program. Does providing MARAD with a permanent appropriation affect the ODS program level?

Answer: No. Operating-differential subsidies are based on long-term contracts authorized under Section 603 of the Merchant Marine Act, 1936. Past appropriations have therefore been simply a limit on our ability to pay the bills for existing obligations. The program level is unaffected. What's more, this level is relatively unpredictable from year to year due to changing international economical conditions and the uncontrollable cost of the foreign component of the subsidy formula. For these reasons, program level has been on a permanent, indefinite contract authority basis and we are requesting a permanent, indefinite liquidating cash appropriation.

Congressional Relations

Question: Mr. Gaughan, your Congressional Affairs Office is undoubtedly of considerable help to the Congressional offices that don't deal with the Maritime administration on a day-to-day basis. As you know, my staff here and at the Commerce Committee have spent years on Maritime matters. They have a thorough knowledge of MARADs programs and personnel--that does not require the assistance that Mr. Dye's office gives to less informed Congressional staffers.

Accordingly, am I correct that you would not expect my staff to add to Mr. Dye's workload when they already know the MARAD officials they need to see and talk to?

Answer: As the Committee may be aware, by Secretarial directive all Congressional staff inquiries are coordinated through the Office of the Assistant Secretary for Governmental Affairs or through a designated office within each operating administration of the Department (e.g., MARAD's Office of External Affairs). This procedure is necessary to ensure that Congress receives reliable and accurate information in a timely manner. This coordination process should not hamper efficient provision of routine program and budget information to Committee staff.

Operations and Training

Question: We note the absence of a supplemental request of fiscal year 1987 funds for increased pay and retirement costs. How are you able to absorb them?

Answer: The estimated additional FY 1987 costs are as follows:

Pay Raise - $665,000

FERS - $476,000

The costs will be funded from a one-time carry-over of funds from FY 1986. These funds primarily became available during 1986 as a result of judicious management practices during 1986.

Question: Does the Maritime Administration plan to expend the funds currently appropriated for the State Marine Schools? Are you assisting them in meeting their fuel costs for 1987 voyages?

Answer: MarAd plans to obligate and expend the $9 million that was appropriated for the state school program for FY 1987, although some excess is expected at

the end of the year due to reduced demand of SIPs. Reimbursement for fuel oil consumed during 1987 training cruises is being made.

Question: You have requested increases of some $2,000,000 for the U.S. Merchant Marine Academy. Why should the committee increase funding for this school while terminating support for the State Marine Schools?

Answer: Title XIII of the Merchant Marine Act, 1936, as amended, states that the Secretary shall maintain the Merchant Marine Academy. Unlike the State maritime schools, the Federal government can directly control the output of the Academy to meet the long-term requirements of the U.S.-flag merchant marine, and the graduates incur a Federal service obligation. Additional funds are requested to adequately maintain the buildings and utility systems at the Academy. These are necessary operating expenses which cannot be responsibly delayed. The output of the Academy is sufficient to meet the foreseeable needs of the U.S. Merchant Marine.

On the other hand, financial support for the State marine schools is proposed for termination because there is insufficient requirement for their graduates. Further, the Government cannot control the output of the program. The Administration continues to believe it cannot justify further investment in the program particularly in view of replacement costs of training vessels.

Title XI Loan Guarantee Defaults

Question: Title XI, Section 1103(f), prohibits the Executive Branch from employing limitations on loan guarantee commitments without obtaining Congressional approval in advance. I assume that is why you are seeking language in the appropriations preventing any insured loans for 1987. Is this correct?

Answer: The termination of Title XI proposed by the Administration reflects the Administration's goal of reducing Government interference in credit markets. The appropriations language that is proposed for 1987, if enacted, would supersede Section 1103(f) for that year.

Question: What is the limit on your guarantee authority under Title XI now?

Answer: The limit is $9.5 billion for total outstanding guarantees and commitments in force.

Question: What other Title XI applications do you have pending that are active and not just simply filed?

Answer: At the present time there are five pending applications for Title XI assistance. The most active of these applications is the one submitted by American Shipbuilding Company. MARAD is awaiting additional information from the other four applicants as well as American Shipbuilding Company to complete our processing of those applications. If satisfactory information on those applications is not submitted as required our processing of these applications will be terminated.

Research and Development Program

Question: For Fiscal Year 1987, $3,500,000 was provided for phasing out Research and Development through your activities. What efforts do you expect from the private sector to continue Research and Development programs? Are you aware of any programs currently underway?

Answer: Industry sponsorship of R&D is governed principally by the expectation of short-term financial gain with business conditions dictating the funding and direction of these investments. The level of industry interest encourages us to believe that the industry will continue to carry out some limited research and development projects in its own interest after government support is withdrawn. Although this is a difficult period for the maritime industries, competition will continue to induce some private investment in R&D activities that are relatively low risk, short-term and high payoff. These activities typically are proprietary in nature, company specific and unpublished, but they do enhance the competitiveness of the individual sponsor. Conversely long-term industry-wide research and development in the public interest clearly will not be performed by individual private companies.

Question: Last year you reported that twenty-two positions supported Research and Development efforts. What is the status of this reduction? How do you plan to effect a reduction in staff during the remainder of Fiscal Year 1987? Will this involve a RIF?

Answer: With the elimination of the Research and Development appropriation after FY 1987, 22 FTEs were also eliminated from our personnel ceiling (11 from the FY 1987 ceiling and 11 from the FY 1988 ceiling). At the present time there are 20 employees onboard who are associated with ongoing R&D contracts. The work associated with these contracts as well as the FY 1987 program will continue into FY 1988.

Our current plan for reducing the R&D staff is as follows.

Five employees located at Kings Point, New York are involved with CAORF and the National Maritime Study Center. With the privatization of CAORF and the termination of R&D funding for the Study Center, these employees will no longer be needed. During the remainder of this year, we will attempt to place these employees in available positions at the U.S. Merchant Marine Academy or with the firm selected to take over CAORF. With these efforts we are seeking to make use of attrition and outplacement in order to avoid a reduction-in-force.

There are 16 employees in Washington. Some of these employees have been detailed to other activities in this Agency while others continue to work on the remaining R&D program. Current contract development and administration activities require the continuation of these employees into the early stages of FY 1988.

In summary, all 22 of the FTEs associated with the R&D appropriation will be eliminated at the end of FY 1987. However, employees currently occupying those positions will be retained because ongoing contract administration work requires the retention of most of the existing staff through much of FY 1988 until the completion of the ongoing contract work. If the $2,000,000 funding for technical studies is approved up to 7 of the current R&D staff will be retained.

It is too early to tell whether a RIF will be required. We hope that a combination of attrition and outplacement will not make such an action necessary.

Question: How does the $2,000,000 you are requesting for technical studies relate to programs which we formerly funded in the Research and Development budget?

Answer: As you know, the 1987 budget included termination of the R&D program. The principal guideline in stopping our research efforts was that the research initiative is more appropriately the responsibility of the private sector. However, the Agency does have a need to continue some of the now research activities that were formerly funded in Research and Development, and $2 million is being requested under the Operations and Training appropriation for studies which benefit the government's needs in pursuing our maritime responsibilities.

Question: Do you now have a rather large Computer Operations Research Facility located at the U.S. Merchant Marine Academy? Has the facility been privatized as indicated in your 1987 budget request. Are there any remaining research activities elsewhere in your budget?

Answer: Proposals for the privatization of the Computer Aided Operations Research Facility (CAORF), have been evaluated and initial negotiations have been completed with two potential operators. A cooperative agreement (Government-owned, contractor operated) for the privatization effort should be awarded by late March 1987.

$2,000,000 in non-research activities previously funded in the Research and Development appropriation are proposed for funding in Operations and Training for such projects as reducing the costs of cargo preference, improving safety and increasing the efficiency of cargo movements between transportation modes.

Question: The Research and Development Program's apparent emphasis on solving long-term, industry-wide problems seems to be similar to the type of long-term, high-risk Research and Development that the Administration has supported at the Department of Energy, for example. Therefore, why is this program being eliminated?

Answer: The Research and Development Program was initiated in the 1970s and at that time had a great proportion of long term, industry-wide projects. As the program has reduced in size over the past several years it has tended to be more a short-term program.

Question: In light of the U.S. shipbuilding industry's competitive difficulties, doesn't this program represent a worthwhile investment in the future and offer some hope of reducing the much larger amounts spent on Operating-differential Subsidies?

Answer: The Department of Transportation believes that this type of activity is better left to the private sector which through market forces can decide where and how much to spend.

Training ships

Question: What is the status of the training ship T/S PATRIOT STATE? Did it successfully complete the training voyage that was scheduled to commence April 1986?

Answer: The PATRIOT STATE successfully completed its 1986 training cruise. The vessel is also a part of the Ready Reserve Force (RRF) and in September of 1986 was called upon to participate in a military exercise. The activation and performance of this vessel during the military exercise was entirely satisfactory. The vessel is currently in a shipyard, undergoing annual repairs, in preparation for the 1987 spring cruise.

Question: What is the status of the training ship T/S EMPIRE STATE?

Answer: The EMPIRE STATE had a successful 1986 summer cruise. After the cruise she entered a yard for post cruise repairs and inspections. A ship repair contract will again be let within a few weeks to handle any other repairs in preparation for the 1987 summer cruise.

Question: Is any more effort being put in pursuing a new training ship for the New York State Academy?

Answer: A RFP was issued in April 1986 for a replacement vessel for the current EMPIRE STATE. Proposals from two offerers were deemed to be acceptable. MARAD has now reached the stage of negotiations leading to their best and final offers.

In addition two government ships currently in our Reserve Fleet are also being considered as replacement vessels. The government vessels will compete with proposals offered under the REP. Selection of a replacement vessel will be made by May of this year.

Question: Are the training ships currently in use by the State marine schools part of the Ready Reserve Fleet (RRF) inventory? If not, why?

Answer: The PATRIOT STATE is the only vessel used by the State Maritime Schools that is a part of the RRF. This vessel was made a part of the RRF at the request of the Navy. The Navy sets the requirements with respect to the composition of the RRF. The Navy would have to be asked to why the other training vessels are not a part of the RRF.

Question: Previous testimony indicated that it costs between $750,000 to $1,000,000 per year to maintain a ship in the RRF inventory. If this is true why would you not consider allowing RRF ships to be used by State marine schools as training ships?

Answer: These costs refer to the total requirement to maintain a vessel in the RRF. They include outporting, activations, deactivations, Reserve Fleet, General Agents, service contracts, supplies, upgrade and maintenance and repair costs. These RRF vessels, as currently configured, are not suitable to be used as training vessels as they cannot accommodate the numbers of students to be trained. Living facilities and feeding facilities aboard a typical RRF vessel can only accommodate 20 to 40 people. In addition these vessels

do not incorporate training aids such as classrooms, navigation equipment, machine and electric shops, etc. which are required of a typical training ship. For this reason, RRF vessels, as currently configured, are not suitable as training platforms in their present configurations.

Revenues Recovered from Sale of Vessels

When a shipowner defaults on a guaranteed loan, MarAd can ultimately obtain title to the ship. Due to the unprecedented surge in defaults, MarAd should have obtained, or be obtaining, title to many ships. It can sell these ships to recover at least part of the amount paid to lenders to cover defaults.

Question: What types of vessels are these -- for example, barges, liners oil-drilling rigs, tankers, etc?

Answer: Vessels available for immediate sale to which MarAd has title currently include supply boats, drilling barges, tugs, LNG carriers and crewboats.

Question: Please provide, for each year FY 84 through 86 and your projection for FY 87, the following: (A) number of vessels to which MarAd had title, (B) number sold, (C) amount recovered through sales and (D) proportion of payoff amount recovered through sales?

Answer: The inventory and activity of Federal Ship Financing Fund vessels is shown in the following table:

	1984 Actual	1985 Actual	1986 Actual	1987 Estimated
A. Number of vessels to which MARAD had title (end of year).....	9	15	201	301
B. Number of vessels sold during the year.....	1	6	218	250
C. Amount recovered through sales ($000,000).....	$0.7	$5.5	$9.4	$40.0
D. Proportion of payoff amount recovered through sales.....	34.5%	51.0%	8.5%	29.6%

Note 1: A vessel is defined as an individual unit which includes drill rigs, supply boats, barges, towboats, and tugs.

Note 2: Vessels sold in 1986 includes 2 LASH and 178 barges transferred to Navy for payment in 1988.

Question: What types of costs does MARAD incur in establishing title to a vessel after default, maintaining it, and selling it--for example, legal and other costs to establish title, layup costs, insurance costs, etc.? How much of an offset against revenues from selling vessels do these costs represent?

Answer: The types of costs incurred by MARAD are generally the same regardless of the types of vessel. Costs to obtain title, maintain and sell a vessel include: survey and appraisal costs, U.S. Marshal expenses, vessel positioning costs, cleaning and critical repair expenses, custodial charges, insurance and advertising costs. Costs vary greatly depending on the type of vessel and the length of time MARAD is custodian for a vessel. In addition, the age and type of a vessel has a great impact on the size of MARAD's recovery after deducting costs. For 1988, these costs are estimated to total $19,250,000.

Question: To what extent can and do other Federal government agencies, and state-local government agencies, obtain such vessels?

Answer: MARAD regularly contacts other Federal government agencies and state-local governments to sell defaulted equipment. In addition, MARAD works with foreign governments who express interest in MARAD's vessels. From FY 1984 to date 184 vessels have been sold to other Federal Government agencies, and/or to State and Local governments.

National Security Support Capability

Question: As of September 30, 1986 what is the overall size of the National Defense Reserve Fleet (NDRF)? How many ships are identified as the Ready Reserve Force (RRF)?

Answer: As of September 30, 1986, the National Defense Reserve Fleet was composed of 296 ships as follows:

Commercial, Dry Cargo	167
Military Auxiliary	47
Commercial, Miscellaneous	27
Special Program	24
Non Retention	31
Total	296

Of the 296 total 77 ships are identified as RRF ships.

As of January 31, 1987, the NDRF was composed of 299 ships as follows:

Commercial, Dry Cargo	167
Military Auxiliary	48
Commercial, Miscellaneous	29
Special Program	29
Non Retention	26
Total	299

Of the 299 total 81 ships are identified as RRF ships.

Availability of Personnel

Question: In previous testimony there was an apparent difference of opinion between MarAd and the Navy relative to the availability of licensed U.S. seaman and officer personnel necessary to operate the NDRF in the event of a National emergency. Has this issue been resolved? Are there sufficient personnel available to meet a National emergency?

Answer: There is not a difference of opinion between MARAD and the Navy on the availability of actively sailing merchant seafarers. The Navy Merchant Marine Manpower Study, produced by the Navy's Strategic Sealift Division in the Office of the Chief of Naval Operations, projects that the peacetime actively sailing work force is inadequate, without augmentation, to meet the total mobilization manpower needs of the merchant marine. MARAD agrees with the analysis in that study.

A MARAD - Navy - Coast Guard staff team is currently addressing a means to augment the active work force under mobilization or major contingency, by, among other possible choices, drawing on the large number of qualified licensed and unlicensed personnel who are employed ashore and are not actively sailing.

Estimates of the number of shoreside qualified personnel indicate a very substantial pool to be drawn on to meet mobilization requirements. However, the Government has a positive hold only on those licensed officer personnel who are graduates of the Merchant Marine Academy and State schools who have Federal service obligations. The Government does not have a hold on the remaining officer personnel nor on any unlicensed personnel and their return to active sailing would be voluntary.

Under current programs, the officer requirement is more manageable through the Federal obligated service requirement and accelerated input from the Merchant Marine Academy. The unlicensed personnel problem is much more difficult as there are no similar programs in place.

Adequacy of Facilities

Question: The Navy projects the RRF strength to stand at 119 ships by 1991 with the possible addition of 30 more ships as the recommendations of the DOD tanker study are pursued. Based on these projections, does MarAd have sufficient docking/mooring facilities and related resources available to accommodate these build-ups or will additional funds be required for the construction of new facilities? Who would budget for this requirement, the Navy or MarAd?

Answer: Our facilities are inadequate and we have thus proposed a multi-year program for improvements beginning in 1987. At the moment, we are arranging with Navy for issuance of $3,855,000 which had been appropriated to them for dredging at the James River and Beaumont Reserve Fleet sites. Meanwhile, we have been doing precontracting work with the Corps of Engineers at both sites.

This overall program is to provide improvements to facilities owned and operated by the Maritime Administration in connection with our long-standing responsibilities to maintain a national defense reserve fleet. Therefore, MARAD is requesting funding for capital improvements to its facilities.

The major elements of the program are: additional mooring stakes and electrical service at the Beaumont Reserve Fleet; replace the three crane barges - each fleet has one crane barge; expand or provide new pier at the Beaumont Reserve Fleet; and, construct a warehouse at the Beaumont Reserve Fleet.

Facilities work results from both the addition of larger ships to the fleets as well as an increased level of operations associated with the Ready Reserve Force (RRF) program.

State Marine Schools

Question: Given the recent DOD and GAO studies citing a near term manpower crisis with the Merchant Marine able to man only the RRF and U.S. flag ships - not the NDRF or U.S. Effective Controlled Shipping - and the assumption that the output is constant out of all Maritime Academies, why has the Administration zero'd funding for the Academies?

Answer: The recent Navy Merchant Marine Manpower Study, produced by the Navy's Strategic Sealift Division in the Office of the Chief of Naval Operations, projects that the peacetime actively sailing work force is inadequate,

without augmentation, to meet total mobilization manpower needs. MARAD agrees with the analysis in that study. Graduates from the Merchant Marine Academy and industry upgrades are sufficient to maintain the peacetime actively sailing merchant marine officer work force.

The Navy study projects a requirement in 1992 for 8,126 merchant mariners to augment the actively sailing work force. This augmentation requirement consists predominantly of unlicensed personnel. The augmentation requirement for deck and engine officers, which are the products of the academies, is 1,494. There is a substantial number of shoreside personnel holding deck and engine officer licenses who form the potential to respond to mobilization requirements. U.S. Coast Guard records as of April 1986, indicate that there are in excess of 10,000 holders of valid unlimited tonnage, oceans, deck officer licenses, a number more than double the actively sailing deck officer work force, and more than 19,000 holders of valid, unlimited engine officer licenses, more than fourfold the actively sailing engine officer work force. This large potential source of qualified officers to augment the peacetime actively sailing work force, and the low level of acceptance of a service commitment by state academy graduates, has contributed to the Administration's decision regarding the state schools. Only 154 of the 702 state academies' class of 1986 graduates agreed to a maritime service obligation.

Question: How will the loss of the readily available State Academy training ships, strategically located around our Nation, affect the ability to meet trooplift sealift requirements?

Answer: This question should be addressed to the Navy. Up to this point, the Navy has made only a limited commitment to one ship, PATRIOT STATE, and has not indicated any support for trooplift features on the other ships.

The training ships located on the West Coast and the Gulf Coast are the oldest, over 45 years old, and are the smallest of the training ships each with a capacity of only 250 troops. If withdrawn from service, these ships would undoubtedly be scrapped. Two of the three training ships located on the East Coast are sister ships which are over thirty years old each with a design capacity of 1,800 troops. If withdrawn from service, these ships would be laid up if required by Navy, otherwise they, too, would be scrapped. The remaining training ship is the PATRIOT STATE which would probably be laid up in the NDRF if the Navy did not place the ship in Ready Reserve Force (RRF) status.

Question: If the State Schools close, what will be the impacts on rapid manning responses for mobilization and on the overall maritime training base?

Answer: The merchant marine academies collectively are producing third mates and third assistant engineers far in excess of peacetime shipboard employment opportunities. However, only a small number of state school graduates are accepting a Federal maritime service obligation and Naval Reserve commission that would guarantee their availability during mobilization. Therefore, a closing of the state schools would represent only a small loss for guaranteed rapid mobilization response, and in the guaranteed maritime training base. The number of licensed officers available from the seafaring work force ashore and accelerated graduation schedules at the Merchant Marine Academy, all of whose graduates accept a service obligation, substantially exceeds the mobilization requirement.

The decision to close a state school or discontinue the maritime officer training program is in the hands of the individual states and not the Federal Government. The Administration has offered the training ships to the states if they wish to carry on their maritime training activities using these ships.

Question: The President's Budget states the reason for ending State School aid is an oversupply of Merchant Marine Officers. If 75% of the State Academy graduates are getting jobs immediately after graduation in the industry and considering by 1992 half of those seafarers presently at sea are 65 or over, how can there be an "oversupply"?

Answer: As reported by the state schools, the Class of 1986 found employment in the following areas:

Afloat (domestic and deep-sea)	- 39%
Maritime Related Ashore	- 22%
Uniformed Services	- 11%

Only 39 percent or 277 licensed officers out of a graduating class of 702 found employment of any kind afloat in the maritime industry. The continued low level of seafaring employment opportunities does not support continuation of the large output of new merchant marine officers.

The median age of actively sailing deck and engine officers in the oceangoing merchant marine has been steadily declining. The following table lists the number of actively sailing deck and engine officers and their median ages for the five most recent years for which data are available:

DECK and ENGINE OFFICERS EMPLOYED
ON OCEANGOING SHIPS 1,000 GT & OVER

	1981	1982	1983	1984	1985
DECK OFFICERS					
Number	6,940	6,107	5,384	5,022	4,354
Median Age	48.1	47.8	47.5	45.5	43.2
ENGINE OFFICERS					
Number	8,040	6,922	6,218	5,684	4,968
Median Age	44.6	43.8	42.5	41.5	40.3

Question: If the State Schools close, with their ability to quickly contact alumni, what method is currently in place to mobilize those with licenses and also how do you mobilize them if they are employed in a competing industry?

Answer: While the ability to make use of alumni mailing lists may be lost if the state schools were to close, there remains the use of radio, TV and press announcements as was done during the 1965-1970 Vietnam era, with dedicated phone and mail address contact points staffed by the Maritime Administration for responders. The matter of mobilizing alumni employed in shoreside occupations or "competing industry" is a basic issue regardless of the method of contact but is directly related to the degree to which graduates have agreed to the maritime service obligation which includes an annual status report from each individual including current address. It is the very point that only a minority of state school graduates have accepted this maritime service obligation which has diminished the capability to mobilize the state school graduates.

Question: The Federal Government's share in the cost of education at the State Academies has been less than that of the students and the States. Is that not cost-effective?

Answer: The fact that the Federal share of the cost associated with the state schools is less than that of the students and the states does not mean that the Federal share is cost-effective from the Federal Government's perspective. To the contrary, the Administation does not believe its assistance to the state schools is cost-effective because: (1) so few of the state school graduates enter into a service obligation (including a Naval Reserve commitment) and (2) there are less costly alternatives to providing the at-sea training experience under its present form.

Question: If the State Schools close, what will be the effect on the Merchant Marine Reserve component of the U.S. Naval Reserve?

Answer: The Merchant Marine Reserve component of the U.S. Naval Reserve is specifically intended for actively sailing merchant marine officers. Less than 22 percent (154 out of 702) of the last (1986) graduating classes at the state schools accepted MMR, USNR commissions. Less than 40 percent of the graduates achieved any type of employment afloat. If the state schools choose to close, this will have only a limited effect on the Merchant Marine Reserve, U.S. Naval Reserve program.

Question: Typically what is the approximate cost to the Federal Government to activate, man and conduct sea trials of a Reserve Fleet ship? What share of cost does the Federal Government bear in the annual activation and at-sea cruise of a State training ship?

Answer: The current planning figure for the cost to activate, man and conduct sea trials and subsequently deactivate a Ready Reserve Force (RRF) ship is $1.5 million.

The Federal Government pays for 100 percent of the annual maintenance and repair costs to prepare the training ships for their training cruises. The academies are responsible for 100 percent of the manning and at-sea cruise costs. However, when funds are appropriated, MARAD reimburses the schools for the cost of fuel consumed during the training cruises. During FY 1986, MARAD spent approximately $5.3 million on M&R and $1.1 million for fuel for the five training ships.

Title XI

Question: The Merchant Marine Act of 1936, directs the Secretary of DOT to consider applications for ODS, and if the Secretary approves an application, to enter into an ODS contract. Since 1981, it has been the Administration's policy to award no new ODS contracts, and DOT interprets this policy as consistent with the Statutory provisions providing for ODS i.e., has it discretion to implement an across the board freeze on the program?

Answer: Consistent with statutory provisions, DOT has the descretion not to award new ODS contracts.

Question: Inasmuch as you testified that you are sending up repealing legislation for the Title XI program, would you confirm that DOT does not take the same view with respect to its authority to grant Title XI applications?

Answer: Until Congress enacts either authorization or appropriations langauge terminating the Title XI program, the Maritime Administrator has stated that MARAD will continue to accept applications for new commitments.

Questions Submitted by Senator Inouye

Operating-differential Subsidies

Question: If an applicant for written permission under Section 805(A) proposes to use vessels receiving Operating-Differential Subsidy, is there any requirement that the applicant demonstrate that its foreign trade service for which subsidy was granted will not suffer in quantity or quality?

Answer: Historically, there has been no requirement of which we are aware for a demonstration under Section 805(a) that a proposed domestic service with a vessel eligible for subsidy will not prejudice subsidized operations of the applicant.

Question: What do you perceive to be the margin for error in determining what amount of Operating-Differential Subsidy is necessary in placing U.S.-flag operators on a par with foreign-flag operators?

Answer: The United States differential in wages, insurance, and maintenance and repairs is constructed through careful statistical comparisons with foreign competitors. Given the diversity of the competition, the trades, and the data involved and the need for standardization, some imprecision undoubtedly exists. This margin of error is regarded as modest and, overall, unbiased as against either the contractor or the Government.

Questions Submitted by Senator Rudman

Maritime Academies

Question: The Federal Maritime Academy is projected to cost $22,767,000 in fiscal year 1988. Would it be more cost-effective to eliminate funding for the Federal academy while continuing to provide the $9,000,000 to the six state academies?

Answer: The Merchant Marine Academy program is under the complete control of the Federal government. It can be sized to meet national requirements and graduates incur a Federal service obligation which insures their availability for at least eight years after their graduation. On the other hand, the Government does not have similar control of State marine school program and there has been a significant reduction in the number of graduates of this program who have a Federal service obligation. The major cost of this program is the maintenance, repair and replacement of the training ships. These ships support all State school students whether or not they have accepted a Federal service obligation. Therefore, there is no guaranteed pay back in terms of individuals who have a Federal service obligation and there is no requirement in the U.S.-flag fleet. Therefore, it is considered more cost-effective to continue a controllable program with a pay back rather than one in which there is an uncontrollable pay back of questionable value.

Technical Studies

Question: The Maritime Administration is requesting $1,150,000 to conduct technical studies related to the use of waterborne transportation systems. Could you provide some examples of the studies that will be funded, as well as why they would not be funded by the private sector?

Answer: These funds would support programs of particular interest and pay back to the Government and permit the Maritime Administration to continue active participation in government/ industry cooperative programs. These include studies primarily related to reducing the cost of cargo preference programs, maritime safety issues such as the impact of reduced manning levels, and reduction of costs of cargo handling and documentation of intermodal shipments.

Program and Policy Studies

Question: The Maritime Administration is requesting $1,500,000 for program and policy studies. Please

provide examples of the studies that would be funded, as well as studies that are funded in the base program budget of $6,480,000.

Answer: Areas of consideration would include reform of ODS, more effective approaches to meeting the Nation's defense needs through reliance on an active U.S.-flag fleet, improved analytical assessments of port, intermodal and marketing activities, and enhanced protection of the Federal Ship Loan Guarantee program (Title XI) assets and portfolio.

While support was provided port, intermodal and marketing assessment activities from the Research and Development appropriation, none of the these is funded in the Operations and Training appropriation program base.

SUBCOMMITTEE RECESS

Senator HOLLINGS. I appreciate the Administrator's answer and your appearance here this morning. Thank you very much. This completes the hearing on the agenda this morning. The subcommittee will be in recess until next Thursday afternoon, February the 26th, at 2:00 p.m., when we will hear the testimony of the United States Trade Representative and International Trade Commission.

Senator Inouye. Will that be in the caucus room. [Laughter.]

[Whereupon, at 11:45 a.m., Wednesday, February 18, the subcommittee was recessed, to reconvene at the call of the Chair.)

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

THURSDAY, FEBRUARY 26, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Ernest F. Hollings (chairman) presiding.

Present: Senators Hollings, Lautenberg, Sasser, and Rudman.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF THE U.S. TRADE REPRESENTATIVE

STATEMENT OF AMBASSADOR CLAYTON YEUTTER UNITED STATES TRADE REPRESENTATIVE

ACCOMPANIED BY MICHAEL DOYLE, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION

BUDGET REQUEST

Senator HOLLINGS. This afternoon, the subcommittee will review the budget estimates of the Office of the U.S. Trade Representative and the U.S. International Trade Commission.

We will first hear the testimony with regard to the Trade Representative. The 1988 request is for $15,248,000 and provides for 146 permanent positions. We have with us Ambassador Clayton Yeutter, the U.S. Trade Representative, who is accompanied by Michael Doyle, the Assistant U.S. Trade Representative for Administration.

PREPARED STATEMENT

Senator Kasten must necessarily be at another meeting. I think we have a half-dozen subcommittees meeting this afternoon. He has asked that his opening statement be included in the record.

[The statement follows:]

PREPARED STATEMENT OF HON. ROBERT KASTEN

U.S. SENATOR FROM WISCONSIN

I am pleased to have these two representatives of agencies so much in the forefront of our trade and competitiveness concerns here today. There is no need to restate the central nature of the areas over which they have jurisdiction. I appreciate the difficulties of the matters before both the ITC and the U.S. Trade Representative. Negotiations with foreign countries cannot yield positive results the next day. But I also have to wonder, despite some of the testimony today, about an approach up to now that has not seemed as aggressive as some of the circumstances would have indicated. In testimony here and in some of the other committees, including the hearing on international communications today, I sense a tougher stance. I hope that in warranted instances this is the case. We in the Congress are obviously concerned and want to give you, our negotiators and fact finders, all of the mandate that you need. We just want to be sure that an aggressive but fair posture starts assuring equal access to the world's markets for American goods and services.

Thank you, Mr. Chairman.

PERSONNEL INCREASE

Senator HOLLINGS. We welcome you, Mr. Ambassador. We will have you, statement, in its entirety, included in the record. You can deliver in full, if you wish, or highlight it, whichever you wish.

Ambassador YEUTTER. Thank you, Mr. Chairman. It is nice to be here.

I certainly would not wish to deliver the entire testimony verbally, so I will highlight it in a cryptic fashion. Indeed, we are a very small budget in terms of the total government operations, as you can tell, with only 146 full time positions included in the fiscal year 1988 budget.

That is an increase, Mr. Chairman, of about 10 positions from our present level, which has prevailed for a number of years. Five of those would actually be new people who would be added to the USTR, and the other five are simply a conversion from either temporary hires or reimbursable details into permanent employees, which we think would be helpful to the improved operation of the agency.

Senator HOLLINGS. How many in all do you have?

Ambassador YEUTTER. It is a total of 146 full time positions.

USTR PERMANENT POSITIONS

Senator HOLLINGS. I will insert a summary of the USTR's permanent positions or work-years for the fiscal years 1979 to 1988.

[The information follows:]

USTR

Fiscal Year	Permanent Positions (P) or Workyears (WY)
1979	42 (P)
1980	113 (P)
1981	127 (WY)
1982	131 (WY)
1983	133 (WY)
1984	137 (WY)
1985	136 (WY)
1986	136 (WY)
1987	141 (WY)
1988 (request)	146 (WY)

CONSULTANTS AND DETAILS

Senator HOLLINGS. That includes the consultants or the assignees? How many assignees do you have from other departments?

Ambassador YEUTTER. This would not include the additional short-term hires. Mr. Doyle can give precise numbers on that.

Mr. DOYLE. It would be 146, Mr. Chairman. Additional details and contractors would probably add another 40 people who work for us in one way or another.

Senator HOLLINGS. So it would be about 186?

Mr. DOYLE. About 186 would be the number.

Ambassador YEUTTER. Part of those are in Geneva, Switzerland, of course, Mr. Chairman, as you know, somewhere around 20, and the remainder are here in Washington, D.C.

This is a very small agency, obviously, as compared to the trade bureaucracies of many of our major trading partners. The reason for that is we are organized differently here in the United States. We, at the USTR, lean very heavily on the human resources support of a lot of other agencies, and particularly Commerce.

REIMBURSALE DETAILS

Senator HOLLINGS. I will insert at this point information with regard to the detailed personnel and the contractors.

[The information follows:]

Reimbursable Details

Agency	Name	Title or Function	Grade	Salary
State	Smith, M.	Deputy USTR (Bilateral, Multilateral, Trade Policy)	FECM	$82,500
State	Cummings, E.	Assistant Chief Textile Negotiator	FS-3	$36,404
EPA	Fuller, I.	Director, Chemical & Advance Tech. Trade Policy (Industry & Services)	ES-04	$73,400
USDA	Moore, M.	Advisor to AUSTR for Agricultural Affairs & Commodity Policy	GM-15	$56,700
Labor	Lavallee, F.	Assistant for Labor Liaison (Public, Intergovernmental, and Private Sector Affairs)	GM-14	$44,430
USDA	Teeter, R.	Secretary (Substitute)	GS-6	$12,888
State	Lavorel, W.	Deputy Chief of Mission, Geneva	FEOC	$70,500
State	Montgomery, F.	Chief Negotiator for Harmonized System, Geneva	FEOC	$73,400
Commerce	Shepherd, R.	U.S. Representative to the GATT Textile Surveillance Body (TSB), Geneva	FEMC	$70,500

All salaries have been verified by the "loaning" agencies.

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Non-Reimbursable Details

Agency	Name	Title or Function	Grade	Salary
USDA	Frierson, J.	Chief of Staff	GM-15	$53,602
State	Schrager, J.	Intelligent Liaison Officer to Counselor	GS-13	$45,400
State	Thompson, C.	Advisor to AUSTR Europe and the Mediterranean	FS-3	$36,404
AID	Seifman, R.	Director for North/ South African Affairs	FS-1	$69,000
State	Abnett, W.	Director for Chinese Affairs	FS-2	$50,000
ITC	Skidmore, K.	Assistant Director for Japanese Affairs	GS-13	$38,727
State	Zumwalt, J.	Country Officer for Japan	FS-3	$36,404
USDA	Werner, E.	Assistant Director for Chinese Affairs	GS-11	$27,172
State	Westmore, D.	Director of Special Projects for Multilateral Trade Negotiations	FS-1	$69,976
ITC	Norton, B.	International E. (Harmonized System)	GS-13	$47,764
Justice	Battistoni, L.	Secretary	GS-7	$20,194
ITC	Kappler, H.	Deputy Director of Tariff (Geneva)	GS-15	$67,000
USDA	Taggaret, C.	Secretary (Geneva)	FS-7	$25,673
Commerce	Morgan, N.	Attache (Geneva) (Harmonized System)	FS-2	$53,646
USDA	Truran, J.	Foreign Agriculture Officer (Geneva)	FS-1	$60,586

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Contractors FY 87

NAME	DESCRIPTION OF WORK	AMOUNT
TRADE POLICY AND ANALYSIS		
Wayne Edisis	Selected Economic Analysis	15,091
Robert Fisher	Selected Micro-Economic Analysis	51,757
Matthew Gallivan	Economic Analysis and effects of policies and programs - Asia and Africa	24,000
Thomas Collier	Editorial and proofreading support	8,000
GATT AFFAIRS		
Joe Elbert	Analytical studies for special US tariff programs, eg. Israel Free Trade and Harmonized System	63,000
Thomas Dycus	Analysts support for Harmonized System, and other Tariff matters	36,200
INDUSTRY & SERVICES		
James Gradoville	Analytical support for issues concerning Semi-Conductors and Japan	30,000
Mary Gardner	Studies in the servies area and for for the New Round	10,000
OFFICE OF MANAGEMENT		
Albert Brown	Security Specialist	8,000
Robert Wilks	Security Specialist	17,280
COMPUTER OPERATIONS		
Richard Shriver	Project Manager for the USTR Computer Center relocation.	12,500
GENEVA		
Marion Saltsman	Administrative Assistant	32,400
M. Marquin	Driver	34,335
V. Girod	Driver	35,685
V. Rivillo	Driver	27,888
Gayle Manupella	Secretarial/Administrative Support	18,418
Evelyn Elly	Secretarial/Administrative Support	9,012
Juinita Folmsbee	Secretarial/Administrative Support	18,699
Van Delden	Telephone Operator	17,010

CONTRACT STAFF

CORDATUM		**$190,534.00**
1.	Performs first line maintenance and trouble-shooting for all computer terminals, printers, data circuits and IBM PC's in Winder building; serves as primary operator for receiving, sending and distributing all electronic mail in the Winder Building. (Jackie Koltz)	$42,924.00
2.	Serves as lead analyst for Trade Action Monitoring System (TAMS), supports all computer graphics requests made of Computer Group, conducts training courses on various office automation systems, services trade information requests, assists in TradeNet coordination. Works on control desk. (Victoria Bundonis)	$39,794.00
3.	Serves as lead analyst on 303 report and Foreign Trade Action Monitoring system. Conducts training courses on office automation program for USTR staff. Acts as lead person on computer and communications security issues. Works on control desk. (Melissa Allen)	$43,092.00
4.	System manager and operator for USTR Geneva office. (Diane Heiken)	$31,714.00
5.	Per diem for Geneva assigned personnel.	$12,200.00
6.	Funding for tasks initiated in FY86 and delivered in FY87.	$20,000.00
BRC		**$226,772.00**
1.	Assists in preparation of Computer Group budget, tracks all expenses against budget, prepares various mandatory reports from GSA et al; validates vendor invoices; assists in acquisition of supplies, services and equipment. (Anne Bowen)	$31,830.00
2.	Provides program support services for computer group. October through March only. (Myrna Shenkler)	$9,912.00
3.	Serves as system manager for USTR computer center which includes responsibility for continuous 24-hour operation of minicomputers, switching equipment, telecommunications hardware and software as well as monitoring of facility's environment. Updates operating system and applications software with changes received from the computer manufacturer and software vendors. Applies ECOs to hardware in timely fashion. (Karen Blocher)	$95,970.00
4.	Acts as backup to system manager; provides updated documentation on computer center procedures which includes operation of Data General Computers, Gandalf digital switch, and telecommunications equipment. (Arlene Turner)	$52,460.00
5.	Early morning and weekend system operator for	

computer room located at 1800 G Street. (John Hodges) $37,040.00

ACRA $208,842.00

1. Serves as lead analyst/project manager on telecommunications projects such as the direct data link to Geneva. Serves as project manager for the move of the computer facility to the Winder Building. Later in the year, will serve as Computer facilities manager. Function converted to government position February 1987. (Pat Laskowski) $18,490.00

2. Serves as systems analyst on various trade information projects, especially the Harmonized System but also Canadian Free Trade Agreement and New Round. Function converted to government position February 1987. (Meg Ricci) $25,106.00

3. Coordinates all Computer Group training programs for Data General, IBM PC and NIH systems. Prepares lesson plans and oversees all instruction. Updates instructional program as changes in systems occur. Coordinates TradeNet training activities as well. Writes user documentation for all USTR information systems. Serves as lead analyst in various computer applications such as the Financial tracking system. Works on control desk. (Sandy Muldoon) $73,132.00

4. Supports various trade projects and administrative systems such as the 303 tracking system. Works as systems analyst on archive project and USTR thesaurus. Assists in hardware troubleshooting. Conducts user training and works on control desk. (Bruce Moats) $47,364.00

5. Funding for tasks initiated in FY86 and delivered in FY87. $44,750.00

BASIC DATA CORPORATION $1,809.00

Additional tasks in development and implementation of the USTR trade thesaurus. (Susan Frieband)

DRI $127,000.00

For tasks in support of the Data Resources Inc. contract awarded under competitive procurement to support the Harmonized System negotiations:

Maintenance Task order #1 $9,511.00

Task order #4 $15,000.00

Task order #5 $30,000.00

Task orders not yet defined $42,489.00

URUGUAY ROUND OF TRADE NEGOTIATIONS

I mention that specifically now, Mr. Chairman, because the Department of Commerce, if it has not yet been before you, soon will be, and they will be asking for something in the vicinity of another 70 people, almost all of whom will be designed for supporting USTR, and this is to properly staff our activities for the new Uruguay Round of trade negotiations, which is just getting underway.

This will be a massive exercise, indeed, clearly the largest multilateral negotiation in the history of the world. We will devote a lot of time, attention, and effort to that exercise over the next 3 to 4 years. Our increase here is primarily for that purpose, and the Department of Commerce's increase will likewise be for that purpose.

TRAVEL COSTS

Senator HOLLINGS. The European Economic Community has a practice, if you want to negotiate, come on over here. They don't travel all around the world negotiating in downtown Bejing, or over in Japan. Our committee has had complaints, at least the suggestion that we follow that kind of procedure, because what happens is that in order to necessarily keep up the corporate representatives, the advisors, the observers, and the AFL–CIO, they all travel around wherever you go.

Ambassador YEUTTER. Yes.

Senator HOLLINGS. I know, in the textile industry, which I am most familiar with, obviously, their travel costs are into six figures for many of these folks to just try to keep up with Ambassador Yeutter, who has possession of the ball. All you have to do is to fall on the ball here in Washington, and they will come, because we have something to give, and they don't have anything.

Ambassador YEUTTER. I am sensitive to that, Senator Hollings, and basically I agree with that position not only because of the cost involved, but in my judgment, because you are always at an advantage if you can negotiate on your own turf rather than on somebody else's turf. We have begun to trim back the amount of traveling that we are doing for negotiating purposes.

The textile people have discussed that very subject with me as well, Mr. Chairman, and we will try to be as sensitive to that as we can. One reason, of course, that we have done a lot of traveling is that we have been a lot more active on the negotiating front than anybody in the world over the last couple of years by far. Sometimes, when you are the demander or when we are on the attack, you have to go to their locale to engage in that activity.

So it depends on the negotiating environment, obviously, but we don't want to spend any more travel money than we have to, and we don't want to have our top people out of town any more than they have to be. So we will be sensitive to that. I have tried to curtail my personal travel schedule tremendously.

Some travel you cannot avoid, obviously. The Trade Ministers meetings and the negotiations in Geneva are clearly going to require that we

go back and forth to Geneva, and this will be more extensive in the future than it has been in past years. But we have a very tight travel budget, and we will try to manage it properly.

RECURRING ITEMS

With respect to other items of the budget, I will just mention two or three, Senator Hollings. Some of the increase that we have in the budget for fiscal year 1988 involves recurring items that are not there because we asked for them to be there. They are there because of requirements beyond our control.

One of them is rent. We have a significant increase in rent coming from GSA that we have to meet. One of them is the new Federal Employees Retirement System. We have to pick up the additional cost of that. One of them is the pay raise, and we have to pick up the additional cost of that.

We have put in for a very nominal increase in representation funds. Our representation funds are still extremely short by anybody's standards, but we clearly don't want to abuse that, and we do it out of our own pockets if necessary.

RENT INCREASES

Senator HOLLINGS. Mr. Ambassador, I don't want to interrupt you, but it is sort of easier for both of us. On rent, it seems like the increase is bigger than the presently paid rent. Is that right?

Ambassador YEUTTER. Yes.

Senator HOLLINGS. How do you explain that?

Mr. DOYLE. The increase is about 140 percent over what we are paying at this moment. It reflects a change from a practice that had been going on for a few years, of GSA not being able to charge what they normally would in terms of the market rate for that rent. That practice has ended, and OMB approved a request to pay them the amount in the budget, which is about a 140 percent increase.

Senator HOLLINGS. All right, sir.

COMPUTER COSTS

Ambassador YEUTTER. The only other major item that we have on the increase side, Mr. Chairman, is a one-time cost for computer operations, which is also related to the Uruguay Round. We have one of the most sophisticated computer set-ups in the government at USTR. It is an extremely valuable set up for us. We need to do some additional things with the facility in preparation for the Uruguay Round; we are doing some things to enhance the security of the system. We intend to incur about a $300,000 one-time cost to achieve that.

Other than that, just a quick comment on the general administrative management of the agency. Being as small as it is, personnel management should not be an enormous challenge at all, and it is not, in my judgment. Neither should the administrative management, and Mr. Doyle is doing a superb job of that.

ADMINISTRATIVE MANAGEMENT FUNCTIONS

I think that we are operating more smoothly from the standpoint of administrative management than this agency has in a long, long time. Certainly we are operating in a more sophisticated way than when I was here 10 or 12 years ago, and I think that that is encouraging.

The turnover in the agency is very, very low. We have a level of professionalism, as you also know. We have a lot of high grade people in the agency because we are using them for extremely important negotiating responsibilities. They perform well. Seventy-five percent of our people received performance awards last year, and that is probably unprecedented throughout the government.

For people like you, who are accustomed to South Carolinians, and me, who is accustomed to Nebraskans, questioning whether people in the Federal Government work very hard, I wish that they could come and spend a week at the USTR, I think that they would feel more assured about the way at least this segment of the U.S. Government functions. We have an awful lot of people working an awful lot of hours, and performing in a superlative fashion.

I think that this is ample for introductory comments.

[The prepared statement of Ambassador Yeutter follows:]

Prepared Statement of Ambassador Clayton Yeutter

United States Trade Representative

Mr. Chairman, I am pleased to appear before you again this year to present the Fiscal Year 1988 budget request of the Office of the United States Trade Representative (USTR).

The budget request we have submitted to you has two dominant characteristics. First, it accurately reflects the steps we must take in Fiscal Year 88 to improve America's international trade position. As such, it identifies the resources we will require to:

- Aggressively implement the President's on-going program for opening foreign markets;
- Actively enforce the trade laws of the United States, and
- Develop, in concert with other agencies of the U.S. government, the kinds of trade policies and action programs that will ensure America's competitiveness into the 21st century.

Second, our budget is lean. It reflects not only the spirit of the Gramm-Rudman-Hollings legislation, but also our tight, no-nonsense operating style.

For FY 88, USTR requires a core budget of $15,248,000, and a staff level of 146 positions. The recurring portion of this request involves $14,948,000 and 146 positions. The difference, $300,000, addresses a one time expenditure.

The recurring portion of the USTR budget request for FY 88 is higher than our FY 87 base of $13,300,000 and 139 positions by $1,648,000 and 10 positions. The increases requested in USTR's resources reflect two important changes:

- Externally driven changes in our basic operating costs, and
- The initiation of Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT).

In FY 88, USTR's basic operating costs will rise by $1,398,000 reflecting three new costs: a non-discretionary rent increase of $724,000; USTR's participation, at the level of $469,000, in the new Federal Employees Retirement System (FERS), and the 1988 cost of the three percent pay raise of this year, which will cost us $205,000.

In addition to these increases in our basic operating costs, we are beginning, even now, to incur expenses in connection with the new Uruguay Round of GATT negotiations. By FY 88, we will be engaged in the most complex and time consuming phase of these negotiations.

This past January, decisions were taken in the GATT which set the structure for the Uruguay Round of negotiations. The structure is a complex and demanding one, with its fifteen topical negotiating groups. In order to operate effectively, from the start, we need to move our teams into position.

In order to meet this challenge, ten new staff positions will be required. Five of the new staff positions will be dedicated to substantive and managerial requirements of the negotiating round. The cost of these five new positions will be $240,000. The other five staff positions will allow us to shift a critical number of contract functions and reimbursable details into our core staff. This shift will increase the stability of USTR's operations and ensure continuity over the multi-year negotiations upon which we have embarked. On a recurring basis, we are also requesting an additional $10,000 in representation funds to support expanded representation requirements which stem from participation in the new negotiating round.

On a one time basis, we are requesting $300,000 to upgrade our computer capacity, bringing it to the level required to meet the demands of the Uruguay Round. Improved security as well as additional analytic capacity will result from this expenditure.

In addition, we are requesting an FY 87 supplemental to cover one half of the cost of the recent federal pay raise, $77,000, and all of the proposed 1987 costs associated with the introduction of FERS, $168,000. We would also like five positions, without funds, to move ahead this year with our plans for shifting key support functions to an "in-house" basis.

Over the past two years, significant changes in the value of the dollar against the Swiss franc, have created difficulties for USTR, which has permanent operations in Geneva as well as in Washington. To facilitate sound operations in the future, we are requesting that our FY 88 funds and our FY 87 supplemental be provided to us on a "no-year" basis. In particular, "no-year" funding will allow USTR to retain dollars in years in which the U.S. currency appreciates versus the Swiss Franc, and spend them when a depreciation puts us in a shortfall position relative to our basic costs.

Last year when I met with you, I reported to this Committee on the trade actions we had recently taken and the issues we planned to pursue in the coming year. I would like to take that opportunity again this year.

As the members of this Committee are well aware, the United States has run merchandise trade deficits in every year since 1976. Over the last ten years, U.S. imports have grown in response to consumer demand and, since we emerged from the 1981-82 recession, in response to the needs of industry in our rapidly expanding economy.

Had U.S. export sales grown at a comparable rate, we would have a far smaller trade deficit today. But U.S. exports have not grown over the past several years. They were held back by a dollar that was too high, slow growth in the economies of our major trading partners, prohibitive debt in the developing countries, and foreign government barriers to the sale of American products.

As of 1982, this nation began to feel the impact of its escalating merchandise trade deficits on broader measures of America's international trade position. Since 1982, we have been running increasingly large deficits on our current account. In a word, we have become international debtors.

The Reagan Administration long ago made clear its commitment to reversing our current account and merchandise trade deficits. Stressing this in a major trade policy address in September, 1985, President Reagan initiated an aggressive new trade action program built on the solid foundation of a commitment to the

"free and fair" trade principles that have served this nation well, through Democratic as well as Republican administrations, since the end of the Second World War.

As part of this trade action program, President Reagan authorized Treasury Secretary Baker to begin working with our major trading partners to correct the imbalances between the U.S. dollar and other key currencies. Simultaneously, he instructed me to take full and creative advantage of the provisions of U.S. trade law to move swiftly and aggressively to open foreign markets to U.S. products and services.

Today, we are beginning to see the fruits of our macroeconomic and trade efforts.

Over the past two years, the dollar has declined significantly against the currencies of our G-5 trading partners. A 45% change has been recorded against the German mark, while the dollar has moved down by 41% against the Japanese Yen. Declines of 40% and 28% percent have been recorded against the currencies of France and the United Kingdom, respectively.

While most of the attention since the Plaza Agreement was reached has been focused on the currencies of the G-5 nations, we are also beginning to see positive exchange rate movements elsewhere. In Europe, where many currencies are tied to those of Germany, France and the United Kingdom, there has been, for example, a 45% decline in the value of the dollar against the currencies of Switzerland and the Netherlands, a 43% change against the currencies of Belgium and Luxembourg, and a 36% percent change against the Italian lira. More recently we have seen the beginning of a movement in the currencies of some of the Asian NICs. We have seen an encouraging 11% decline against Taiwan's currency and a 5% decline against Singapore's currency.

Over the past eighteen months, we have made important progress in opening new markets for American products and services -- and in one important situation involving the European Community (EC) -- we fought hard and held on to markets that we might have otherwise lost.

I'd like take a minute to review a few of the key trade issues we addressed last year, to give you a sense of the kind of impediments and negotiations we face. In addition, I am attaching to my testimony a more complete update on the trade actions we took last year.

To bring down the foreign trade barriers that impede U.S. exporters, this Administration has literally shifted gears. The shift is clearest when one looks at the way we are using Section 301 of the U.S. trade law -- the primary legal tool we have for attacking unfair trade practices. Until 1985, only industry had put this law to work. Now the full force of the U.S. government is in active gear with respect to this law.

Since September, 1985, we have "self-initiated" eight Section 301 actions. Of these, we have brought seven cases to resolution. In addition, we brought four existing industry-initiated cases to resolution during the same period. Overall, this Administration has launched more than 60% of all the actions taken under Section 301 since that provision of our trade law was enacted.

As a result of these Section 301 actions:

- The EC agreed on January 30, 1987 -- for the first time -- to fully compensate us for market losses we experienced

as the result of an enlargement. The compensation package we negotiated fully addresses the loss of $400 million in corn and sorghum sales, that was triggered by higher tariffs imposed by the EC on U.S. imports into Spain, through access guarantees on feed grains and through duty reductions on 26 other agricultural and industrial products which the U.S. exports.

- Japan agreed to open its cigarette market to U.S. exporters by suspending its 20% tariff on cigarettes and by removing other access impediments.

- To conclude an industry-initiated case, Japan also agreed to open its markets to imported semiconductors and to refrain from dumping Japanese semiconductors in the U.S. and in other foreign markets.

- In December, 1986, Taiwan agreed to open its beer, wine and cigarette markets to American exports.

- In August 1986, the EC agreed to give U.S. citrus producers additional access to its market -- thus ending a 16 year dispute.

- Korea agreed in July, 1986 to eliminate prohibitions against underwriting by foreign insurance firms.

- Korea also agreed -- in response to the first Section 301 case ever taken on intellectual property issues -- to provide effective protection for foreign works by amending its patent and copyright laws. The new laws were passed, on schedule, in December, 1986.

- Taiwan, in response to a self-initiated 301 action, brought its procedures for calculating customs duties into conformance with the substantive provisions of the GATT Customs Valuation Code.

- Japan agreed, on December 21, 1985, to compensate the U.S. for its GATT-illegal leather and leather footwear quotas by reducing tariffs on many items, including five important aluminum items, and "binding" tariffs on still others.

Measured against any yardstick, these results are impressive -- not just in terms of the market access they represent, but because 301 cases are only one of the many kinds of trade policy and trade action efforts USTR undertakes each year.

Major bilateral and multilateral trade negotiations are a key way in which we seek to expand the international trade opportunities available to U.S. businesses. Central to our current efforts are:

- Our "free trade" talks with Canada -- America's largest trading partner, and

- The new multilateral trade negotiations under the GATT which we launched last September in Punta del Este, Uruguay.

In September, 1985, Prime Minister Mulroney of Canada proposed comprehensive negotiations to reduce and eliminate barriers to trade in goods and services between our two countries. President Reagan welcomed this proposal and subsequently received a "go ahead" from Congress for such negotiations on a "fast track" basis.

Those negotiations are now underway. The "free trade" talks with Canada represent what may be our single most important endeavor for 1987. Merchandise trade flows between our two countries totalled $114 billion in 1986. We believe that these numbers will grow dramatically if we open up the border between our two nations. We also see a vast expansion of activity in the services sector, in investment flows, and in capital movements generally. These negotiations are complex and sensitive. Nevertheless, we hope to bring them to completion this year.

If we are successful in our "free trade" talks with Canada -- and we certainly will try to be -- implementation will require a good deal of attention in FY 88.

Last September, in Punta del Este, Uruguay, more than ninety nations joined together to launch a new round of multilateral trade negotiations in the GATT. The United States played a key role in this effort. First, we worked behind the scenes for several years to create a favorable climate for the initiation of new multilateral talks. Second, we made the case, throughout FY 86, for a comprehensive negotiating agenda. Our success in placing all of the issues that concern U.S. business on the negotiating agenda is as important as it was hard won.

The Uruguay Round will demand a significant level of attention from USTR during the remainder of FY 87, in FY 88 and for two years thereafter -- assuming that the negotiators can complete their work within the four year negotiating period which the participating nations agreed upon in Uruguay. Through this GATT negotiating round, we are seeking important improvements that will be of great benefit to U.S. businesses. Our objectives include:

- The creation of international trade disciplines for agriculture -- disciplines that are essential if governments are ever to let market mechanisms and open trading rules restore the economic health of the agricultural sector;

- The creation of international trading rules covering services -- the fastest growing sector of the American economy;

- The development of international agreements which will afford U.S. intellectual property the kind of protection it deserves;

- The creation of international disciplines covering investments, and

- Strengthening the GATT dispute settlement process -- the glue that must hold the system of international trading rules together.

In addition to initiating these important bilateral and multilateral trade talks last year, we took a number of other steps to correct unfair trade practices and open foreign markets for U.S. business. For example, the Administration:

- Took the first self-initiated action under Section 307 of the Trade and Tariff Act of 1984. As a result of this action, Taiwan agreed to eliminate export performance requirements in its automotive sector.

- For the first time, used Section 305 to self-initiate investigations of Japan's supercomputer trade practices and the EC's meat inspection practices -- both of which could have negative effects on U.S. trade.

- Conducted extensive bilateral negotiations with Canada concerning softwood lumber. As a result, Canada has imposed an export tax to neutralize the effects of the subsidies it provides to this industry.

- Completed negotiations on ten bilateral investment treaties (BITs), and forwarded them to the Senate for its advice and consent.

The actions we take to enhance the opportunities for U.S. business are not focused exclusively on foreign markets. At times, what is needed is action that gives U.S. business a solid competitive chance in our own large market. Over the past year, we've acted forcefully in this arena as well. We have:

- Successfully negotiated a renewal of the Multifiber Agreement (MFA) with expanded fiber coverage to prevent disruptive import growth in ramie, linen and silk-blend products. In bilateral negotiations we held increases in trade to less than 1 percent with four of our largest suppliers -- Taiwan, Korea, Hong Kong and Japan. We also negotiated much tighter agreements with several mid-level suppliers. In all, we established nearly 200 new quotas.

- Used Sections 201 and 232 of the trade law to take actions that will provide red cedar shakes and shingles manufacturers and the U.S. machine tool industry with the temporary import relief they require while they restructure in order to successfully compete in the future.

The "playing field" on which U.S. business is competing today is more level than it has been at any time during the past seven years. Yet our work is still far from complete.

At $169 billion, our trade deficit remains far too high. Trade policy and the kinds of trade actions I have just described are important elements of a solution -- but they cannot carry us the whole way.

The need for a more comprehensive approach for addressing the issues that determine the international trade position of the United States, as well as the domestic competitiveness of U.S. business, is what led President Reagan to call upon his Cabinet to formulate a program that would ensure our competitiveness not just for today -- but for the next decade and the next century as well.

The Trade, Employment, and Productivity Act of 1987, which President Reagan spoke of in his State of the Union Address, and which he delivered to Congress last week, is the product of a wide-ranging effort to define the challenges that face America and to develop the means for meeting those challenges. The titles of the Act are as far ranging as its purposes. Individually they aim at:

- Increasing our investment in human and intellectual capital;

- Ensuring that we remain "light years" ahead in scientific and technological development;

- Improving the protection afforded U.S. intellectual property rights;

- Refining our legal and regulatory systems -- to lighten the hand of government on business;

- Fostering a favorable international economic environment, and

- Eliminating the U.S. budget deficit -- our albatross-- and letting our economy soar once again.

The Trade, Employment, and Productivity Act of 1987 puts the U.S. government shoulder to shoulder with U.S. business and with American workers and farmers in an all out effort to guarantee a bright future for this nation. In FY 87 and FY 88, USTR will be deeply involved in the implementation of this important program.

Imbalances in the current economic environment continue to impede our progress. The United States and its key trading partners are committed to working together to establish an international economic environment that is conducive to trade between our nations, as well as growth within them.

The exchange rate adjustments which occurred during the past eighteen months represent a critical step in a program to achieve this end. While these exchange rate changes are important, they are only part of the answer.

For months now, we have been telling Japan and our European friends that their domestic economic growth rates are inordinately low, and that this has contributed significantly to our trade imbalance. Low growth in our fellow developed countries not only harms our exports, but it also forces LDC exports into the U.S. market. Our trading partners, of course, view the U.S. budget deficit as an equivalent problem. In order to finance that deficit, the U.S. has been borrowing from abroad. The Europeans in particular tell us that the resources we are borrowing to finance our budget deficit are resources they need to invest in their own domestic economic growth.

Seeking new actions that would improve the international economic environment, Treasury Secretary Baker met with the top finance officials of six major industrial countries in Paris this past weekend. These sessions produced agreement on specific actions each country would take to promote more balanced global growth and to reduce existing imbalances. Surplus countries committed themselves to strengthen domestic demand and to reduce external surpluses, while deficit countries committed to reduce domestic imbalances and external deficits.

Building on that foundation, Germany and Japan agreed to renew their efforts to stimulate domestic growth at home and Secretary Baker reaffirmed our commitment to reduce the federal budget deficit.

As part of the President's competitiveness initiative, we will build upon the steps we have already undertaken to improve the international economic picture. We will continue to work closely with our major trading partners to define mutually beneficial improvements in the economic environment. Finally, we will monitor the progress that we and our trading partners are making to correct the causes of the current economic imbalances.

As I have already suggested, work on the Uruguay Round of GATT negotiations will be a centerpiece of our efforts over the next several years. Under the international economic title of the Trade, Employment, and Productivity Act, we have requested the tariff proclamation authority and the non-tariff barrier "fast track" authority we will need for the Uruguay Round.

We will not, however, stand idly by -- hoping that the Uruguay Round will solve all our problems -- when other nations

impose new barriers to U.S. goods and services or engage in unfair trading practices. When we believe that swift action is warranted, we will employ every appropriate weapon in our trade laws arsenal to bring such actions to a halt.

We cannot today predict the arenas in which we will need to act during FY 88 under Section 301 or other sections of our trade laws. There are, however, some patterns that give us an idea of what FY 88 might hold in store. For example:

- The number of unresolved issues we face with Japan--and the speed with which new bilateral issues have emerged over the past few years -- strongly suggests that we will be engaged in efforts to resolve a number of thorny issues with Japan during FY 88.

- Given the increased attention that U.S. businesses, the Congress, and USTR are paying to the trading practices of the advanced developing countries (e.g., Brazil, Korea, Taiwan), we anticipate that a growing number of the market access cases we pursue will involve these nations.

- If we are making progress in the Uruguay Round's agricultural talks, our need for bilateral negotiations with the EC might be reduced in FY 88. Conversely, if little or no progress is being made on agriculture in the GATT, further agricultural trade disputes with the EC would be almost inevitable.

To summarize, Mr. Chairman, the work load of the Office of the U.S. Trade Representative is multifaceted and heavy indeed. Ours is, and must continue to be, both a proactive and a reactive organization.

Through well planned bilateral and multilateral negotiations, we systematically seek to benefit U.S. business and improve America's international trade picture. At the same time, we must be prepared to respond immediately when new trade barriers are erected and new unfair trading practices are uncovered.

Each year, the global economy grows more complex and more interdependent. The work in which we will be engaged in FY 88 will, in all likelihood, be more demanding than the work we concluded in FY 86, or the work in which we are engaged today.

Our responsibilities are many, but our demands in budget terms have always been light. We pride ourselves on being a taxpayer investment with a very high payoff. Thus, while we are requesting some increased resources for FY 87 and FY 88, these requests are assuredly moderate. We are mindful of the disastrous impact our federal budget deficit is having on our economy and on our international trade position. Were it possible for us to request fewer resources, we would do so.

Mr. Chairman, I would be pleased to respond to any questions you might have.

Attachment: "The President's Trade Policy: An Update"

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

THE PRESIDENT'S TRADE POLICY: AN UPDATE

On September 23, 1985 President Reagan outlined a trade policy consisting of three parts: tough action against other nations' unfair trade practices, negotiations to liberalize world trade, and international economic policy reforms that would help both U.S. exporters and import-sensitive industries.

The President's policy has achieved major progress on all fronts. Here is a summary of its achievements.

I. FIGHTING UNFAIR TRADE

Since September 7, 1985, President Reagan has instructed U.S. Trade Representative Clayton Yeutter to initiate or take action on eleven unfair trade practice cases under section 301 of the Trade Act of 1974. Ten of these cases have been resolved and President Reagan has issued an unfairness finding in the other.

The aggressive use of section 301 and other statutes is achieving results:

EC Enlargement

The European Community (EC) agreed on January 30, 1987 to provide full compensation to the U.S. for higher corn and sorghum tariffs imposed in Spain following that country's accession to the EC. The $400 million compensation package includes guaranteed imports of 2 million metric tons of corn and 300,000 metric tons of sorghum by Spain. Another 400,000 metric tons of grain may be sold in Portugal as a result of elimination of a requirement reserving 15 percent of the Portuguese grain market for sales from other EC member countries. The EC will also lower tariffs on 26 other products to provide additional market access and extend all current EC tariff bindings to Spain and Portugal. These actions were taken after President Reagan had announced retaliatory measures under section 301.

Japan Tobacco

Japan agreed on October 6, 1986 to open its cigarette market to U.S. cigarette exporters by suspending its 28 percent tariff on cigarette imports, by ending the discriminatory practice of allowing deferred payment of excise taxes by Japanese manufacturers and by eliminating distribution and price approval problems. U.S. cigarette exporters believe their exports to Japan could quintuple, reaching $1 billion annually. This settled a self-initiated section 301 case.

Taiwan Beer, Wine and Tobacco

Taiwan agreed to open its beer, wine and cigarette markets to American exports, creating the possibility of an additional $150 million in sales in these commodities. This action was taken on December 8, 1986 after President Reagan instructed Ambassador Yeutter to propose retaliatory action under section 301.

Japan Semiconductors

Japan agreed on July 31, 1986 to open its market to sales of U.S. semiconductors, which should increase semiconductor exports by $2 billion in five years. Japan also agreed to help ensure that Japanese companies will quit dumping computer chips below cost in the U.S. and third country markets. This settled an industry-initiated section 301 case and two antidumping cases.

-- The Administration is monitoring this agreement carefully in light of apparent noncompliance by Japan. In emergency consultations in Tokyo the week of January 26, U.S. negotiators set deadlines for Japanese actions to bring them into full compliance with the provisions of the agreement.

Brazil Informatics

In another self-initiated section 301 case, President Reagan determined on October 6, 1986 that Brazil unreasonably restricts imports of computer technology, provides inadequate protection of intellectual property rights for computer software and restricts investment in the computer sector. Based upon progress made to date and upon expectations of future progress, President Reagan decided on December 30, 1986 to provide an additional period until July 1, 1987 for Brazil to make improvements in its informatics regime.

EC Citrus, Pasta, Almonds

The EC agreed on August 10, 1986 to give U.S. citrus producers additional access to the European market, ending a 16-year dispute on the EC's special treatment for Mediterranean citrus imports. The EC also agreed promptly to solve the long-standing problem of subsidies for EC pasta exports. And the U.S. and EC agreed to tariff reductions on other products that will give U.S. almond producers additional access to the European market. These agreements were reached after President Reagan retaliated against the EC's citrus preferences under section 301, raising pasta duties on November 1, 1985. (As part of the settlement, both sides rescinded their retaliatory measures).

Japan Leather

Japan agreed on December 21, 1985 to compensate the U.S. for GATT-illegal leather and leather footwear quotas by eliminating tariffs on 137 items, including five important aluminum products, and making permanent 242 earlier tariff reductions. In addition, the U.S. imposed higher duties on Japanese leather imports to the U.S. This settled a long-standing section 301 case on which the President set a deadline for retaliation.

Japan Aluminum

Following consultations required as part of the leather agreement, Japan agreed on October 31, 1986 to accelerate tariff reductions on aluminum imports.

Korea Insurance

Korea agreed on July 21, 1986 to eliminate prohibitions against underwriting by foreign firms of life and non-life insurance, ensuring fair access for U.S. firms to Korea's $5 billion insurance market.

Korea Intellectual Property

Korea agreed on July 21, 1986 to offer significantly greater protection to U.S. intellectual property rights, including patents, copyrights and trademarks, settling a self- initiated section 301 case.

Korea Motion Pictures

A potential section 301 case was avoided when Korea agreed on December 23, 1985 to reduce its barriers on importing and distributing of U.S. motion pictures, television programs, and video materials.

Taiwan Customs Valuation

Taiwan agreed on August 11, 1986 to fulfill its commitment to use the transaction value, instead of an artificial duty paying schedule, to calculate customs duties. This action came after the President directed Ambassador Yeutter to propose retaliation under section 301.

EC Canned Fruit

The EC agreed in December 1, 1985 to phase out the processing element of subsidies for canned peaches and pears, giving U.S. canned fruit exporters a chance to compete in the EC market. This settled a long-standing section 301 case on which the President set a deadline for retaliation.

In addition to section 301, President Reagan has used other statutes to fight unfair trade:

Canada Lumber

On December 30, 1986 the United States and Canada settled a long-standing dispute over Canada's lumber pricing practices. Canada agreed to implement a 15 percent export tax on lumber, thereby neutralizing the effect of its lumber subsidies.

Generalized System of Preferences (GSP)

On January 2, 1987 Ambassador Yeutter announced that President Reagan will reduce the level of duty-free GSP benefits available to advanced developing countries by an estimated $2 billion, or 23 percent. This decision concluded a two-year general review of the GSP program which encouraged improved protection of intellectual property rights and the elimination of foreign trade barriers to U.S. goods, services, and investment. The President also decided to terminate or suspend from the program three countries for their failure to improve their worker rights practices.

Taiwan Investment Restrictions

Taiwan agreed on September 12, 1986 to eliminate export performance requirements in the automotive sector. This occurred after the President instructed Ambassador Yeutter to initiate a case under Section 307 against trade related investment restrictions by Taiwan, which had imposed export requirements on a Japanese auto plant investment there.

Brazil General Aviation Aircraft

Following several years of consultations, Brazil agreed in late 1985 to reduce import restrictions on general aviation aircraft by lowering tariffs from 50 to 20 percent, by

granting import licenses for aircraft under 7,000 kilograms within 30 days and by making licensing procedures more transparent.

Japan Supercomputers

The United States initiated a Section 305 investigation of Japan's supercomputer trade practices on December 10, 1986, thereby launching an interagency fact-finding review of trade in one of America's most advanced industries. The United States and Japan will also discuss the issue of Japanese procurement of supercomputers under the auspices of the Market-Oriented Sector Selective (MOSS) electronic talks.

Japan Rice

Ambassador Yeutter announced a strategy for dealing with Japanese restrictions on rice imports on October 23, 1986. Under this strategy, the U.S. will ask Japan to honor commitments made in Punta del Este, Uruguay to roll back GATT-illegal trade measures and to negotiate on all agricultural issues during the Uruguay Round negotiations.

Japan Airport Construction

Japan has assured the U.S. that foreign companies will be able to compete on a fair and equal basis in the second and third construction stages at the $8.5 billion Kansai airport in Osaka Bay. Consultations continue on American participation in the airport construction.

War Chest

On September 23, 1985, the President proposed a $300 million three-year fund to counter predatory export credit financing by U.S. competitors for projects in developing countries. Congress appropriated $100 million last year for this purpose. The Administration is seeking the additional $200 million for the next two years.

Sweaters from China and Macau

The U.S. used new authority under the Multifiber Arrangement (MFA) to establish quotas on such products as ramie, linen and silk-blends for the first time on September 3, 1986 when, following import surges in these products, it notified China and Macau that it intended to limit "new MFA fiber" sweaters from those countries.

Japan Fish Quotas

GATT consultations requested by the United States regarding Japan's quotas on fish -- particularly herring and pollock -- began on October 22, 1986.

Japan Agricultural Quotas

On July 15, 1986, the U.S. asked for a GATT investigation of illegal Japanese import quotas in 12 agricultural categories, including fruit juices and processed beef. A GATT panel has been established to investigate the U.S. claim.

EC Airbus

On December 19, 1986, Ambassador Yeutter requested political-level round of consultations with three European governments

on the Administration's complaint that they improperly subsidize Airbus Industrie. Those talks were held during the week of February 2, 1987.

EC Meat Inspection

On March 31, 1986, President Reagan instructed Ambassador Yeutter to initiate an inquiry under Section 305 into unnecessary inspection standards the EC intends to enforce against meat imports.

Preshipment Inspection

Ambassador Yeutter announced actions on October 20, 1986 that will address impediments to American exports caused by requirements by some countries that shipments be inspected by private companies in the U.S. before export.

GSP Ethanol

On April 1, 1986, the President determined that certain ethanol mixtures were being imported in circumvention of U.S. law and would no longer be eligible for duty-free treatment under the Generalized System of Preferences (GSP).

Shakes and Shingles

On May 22, 1986, the President granted import relief to the red cedar shakes and shingles industry under section 201 in the form of a declining tariff program.

II. NEGOTIATING TRADE AGREEMENTS

President Reagan is seeking a worldwide negotiation to improve international trading rules as well as a wide array of bilateral agreements to open overseas markets for U.S. exporters and to shield import-sensitive industries from unfair imports.

Uruguay Round

On September 20, 1986, in Punta del Este, Uruguay, trade ministers from the 92 nations in the General Agreement on Tariffs and Trade (GATT) launched comprehensive multilateral trade negotiations under the GATT. The talks will strengthen the international trading system so that U.S. manufacturing, services and agricultural industries can better compete in international markets. The U.S. will seek new rules covering trade in services and agriculture, trade-related investment, intellectual property protection and dispute settlement.

Canada FTA

An historic negotiation with Canada designed to liberalize trade between the two nations began on June 17, 1986. If successful, the talks could lead to the virtual elimination of the border for commercial purposes, strengthening both countries' ability to compete in international trade.

MFA

Textile exporting and importing nations agreed to a stronger and more comprehensive extension of the Multifiber Arrangement (MFA) on August 1, 1986. The new MFA extends product coverage to essentially all fibers and makes it easier to prevent import surges.

Machine Tools

On December 16, 1986 President Reagan announced that Japan and Taiwan had voluntarily agreed to restrain machine tool exports to the United States for five years. He also approved a domestic action plan that will facilitate the industry's revitalization. This program, which will last five years, was undertaken for national security purposes.

Japan MOSS

Important progress was achieved in 1985 in the Market-Oriented Sector-Selective (MOSS) talks with Japan to open markets for U.S. products. A number of market-opening measures are to be implemented while talks will continue to open markets even further.

-- In the telecommunications area, the Japanese market was opened substantially to American radio equipment and services, terminal equipment and network services.

-- Barriers to imports of American medical equipment and pharmaceuticals were reduced by simplifying regulatory procedures, eliminating administrative delays, and making the rules and regulations more understandable.

-- In electronics, several important measures were approved that should improve access by U.S. companies to the Japanese market, including tariff reductions, improvements in the patent process, participation by U.S. companies in Japanese R&D projects, and legal protection for semiconductor chips and computer software.

-- In forest products, the Japanese government has committed to tariff reductions on wood and paper products. The talks will now focus on non-tariff barriers.

-- On August 20, 1986, the U.S. and Japan began negotiations on the next MOSS negotiation area -- auto parts.

Japan NTT Agreement

On December 23, 1986 Japan agreed to a three-year renewal of the bilateral agreement on procurement of telecommunications equipment by the Nippon Telegraph and Telephone Company. Under this agreement, the government of Japan must provide nondiscriminatory treatment for U.S. products in procurement, ensuring the ability of U.S. suppliers to compete in a market that formerly was closed to foreign suppliers.

EC Steel

On November 1, 1985, the EC agreed to hold steel exports to 5.5 percent of the U.S. market through September 30, 1989. The U.S. has now negotiated 18 such agreements with steel-producing countries. These agreements are designed to correct market distortion caused by foreign practices such as subsidies, dumping, and quotas.

-- On August 10, 1986, the EC agreed to limit semifinished steel exports to the U.S. to approximately 600,000 tons annually. This agreement brings semi-finished steel under the discipline of the U.S.-EC Steel Arrangement for the first time.

Steel Surges

On September 4, 1986, Ambassador Yeutter requested immediate consultations with Canada, Sweden, and Taiwan to remedy the problem of steel import surges from those nations. This followed large monthly increases from these nations (which are not covered by the President's steel program) during July. Steel imports from Sweden and Taiwan have subsequently declined.

Mexico GATT

On August 24, 1986, Mexico acceded to the GATT following the negotiation with the U.S. of terms of accession that will guarantee greater access to the Mexican market for U.S. exporters.

Hong Kong Textiles

The U.S. and Hong Kong reached a comprehensive agreement on textile and apparel imports on June 30, 1986, limiting growth of Hong Kong textile and apparel imports to an average of one percent per year through 1991. This agreement also extended coverage to virtually all fibers, including ramie, silk blends and linen.

Taiwan Textiles

On July 14, 1986 the U.S. and Taiwan reached a comprehensive agreement on textiles and apparel similar to the agreement reached with Hong Kong. Under this agreement, Taiwan's exports will grow by about one-half of one percent from 1985 through 1988. In addition, Taiwan agreed to reduce tariffs on more than 300 textile and apparel items by as much as 50 percent, providing additional market access for U.S. manufacturers.

Korea Textiles

On August 4, 1986 the U.S. and Korea reached a comprehensive agreement on textiles and apparel that will limit import growth to 0.8 percent annually through 1989. In addition, Korea has agreed to phase out its import licensing system over three years, providing additional market access for U.S. manufacturers.

Japan Textiles

Japan agreed to a comprehensive agreement on textiles and apparel on November 13, 1986 that will limit import growth to 0.8 percent annually through 1989. In addition, Japan agreed to establish a mechanism to prevent transshipments of textiles from third countries through Japan.

Japan Computer Parts

The U.S. and Japan agreed on November 22, 1985 to eliminate all tariffs on trade in computer parts and Japan agreed to eliminate tariffs on computer peripherals and central processing units.

Japan Lawyers

On April 11, 1986, the U.S. and Japan announced an agreement permitting American lawyers to enter the legal services market in Japan for the first time. Consultations continue on implementation of the agreement.

Taiwan Pears

Taiwan agreed to liberalize restrictions on imports of pears as of September 15, 1986.

Colombia Wine

Following representations by Ambassador Yeutter to the President of Colombia, that nation removed U.S. wines from its list of prohibited imports.

BITs

Since March 25, 1986, President Reagan has sent to the Senate for ratification 10 bilateral investment treaties (BITs) liberalizing investment policies between the U.S. and developing nations.

Harmonized System

On July 25, 1986, the U.S. presented the GATT with a new U.S. tariff schedule bearing common nomenclature negotiated in the GATT over a 12-year period. U.S. exporters will benefit from the efficiency that results when the new system is phased in by all countries.

Government Procurement Code

GATT's Committee on Government Procurement completed the first phase of renegotiating the Government Procurement Code on November 21, 1986, strengthening the Code to bring the procurement practices of other signatories more into line with U.S. practices.

III. IMPROVING THE INTERNATIONAL ECONOMY

President Reagan has sought an unprecedented level of coordination of international economic policies among the leading developed countries to provide a more reasonable relationship between the dollar and other currencies to assist U.S. exporters and import-sensitive industries.

Plaza Agreement

Secretary Baker and representatives of four other industrialized nations agreed on September 22, 1985 to embark on a major effort to coordinate economic policies. The result has been a major realignment of currency exchange rates, which will begin to alter our trade imbalance soon and which has already made U.S. products and services far more competitive.

Tokyo Summit

The President achieved agreement at the Tokyo Economic Summit on May 6, 1986 on a package of reforms that will improve the international monetary system and provide a more stable international economic environment.

February 9, 1987

PERFORMANCE AWARDS

Senator HOLLINGS. You get me. I want to be courteous and polite, but who gave the performance awards, the People's Republic of China?

Ambassador YEUTTER. No, we gave them internally, and they were well deserved. They were well deserved.

Senator HOLLINGS. We were told that we were going to hold the line, and you stated that it was going to be about a 6 percent increase, and it ended up being 10 times that amount, a 60 percent increase in textiles, so now the People's Republic of China is the number one exporter, if you want to call them, or the number one importer into the United States.

TEXTILE IMPORTS

Ambassador YEUTTER. There are some particular reasons why textile imports increased from China last year. I would be glad to get into that in detail, if you would like.

As you well know, we are in the process of renegotiating that agreement this year, and the negotiations are already underway. I had nothing whatsoever to do with the original agreement that was negotiated, so I can't testify to the motivations that were involved in terms of the coverage that existed at that time.

Obviously, the agreement covered products that were anticipated to be a problem from an import standpoint. China continued to expand its production to a lot of other products that were not covered in the agreement, and that has clearly caused the increase. The question now is, can we bring these additional products under further control, and the answer is certainly. We are in the process of doing that right now.

Senator HOLLINGS. We hear that, Mr. Ambassador. There was, of course, a historic record made at that time, when they were negotiating, I believe in Geneva, by Ambassador Brock at that particular time. He used the figure of 2 to 3 percent. It has grown instead over the 4-year period on an average of 30 percent.

Ambassador YEUTTER. Yes.

Senator HOLLINGS. He attested and every ambassador that comes up tells us, "we are working on it, we are working on it." In all candor, I almost have the feeling that if I could go back to 1962, when we had a handful in that office—you continue to use the expression "small"—if I had a handful there, I might fare a little bit better.

Ambassador YEUTTER. We have a handful involved in textile negotiations assuredly. Some of the folks in the textile industry think that we need more, but our job is to do it right irrespective of what the number is.

ACCOMPLISHMENTS IN TEXTILE NEGOTIATIONS

Senator HOLLINGS. What do you project?

Ambassador YEUTTER. Let me answer it this way, Mr. Chairman. I think we made enormous progress on this issue last year. As you know, we negotiated bilateral agreements last year with all the major players in the textile and apparel industry, that is those who ship to the United States—Hong Kong, Korea, Taiwan, and Japan. China is underway right now.

Senator HOLLINGS. Of those three, my records show that we allowed it to grow by 500 million square yards. In fact, you came over to the Congress just before the veto overide vote, and you said practically the same thing.

We were told that we are now going to control Hong Kong, Taiwan, and Korea, and we are going to have a freeze, and since that time it has gone up 500 million square yards. That is what we continue to hear, and I think that the record ought to show it at the present time.

Excuse me. Go ahead and complete your thought. What do you think you will hold it to?

Ambassador YEUTTER. We will hold it to the agreements that were reached. Obviously, the reason for some of that increase was because those shipments took place before the agreements were reached. One has to know the effective date of the agreement before one can evaluate whether or not it has been breached or violated.

We don't intend to permit anybody to breach or violate those agreements. They are all inclusive. We no longer have the problem of products being outside of those agreements. They are all, as you know, for an increase of less than 1 percent per year for the life of the new agreement.

Senator HOLLINGS. Do you think that you are going to hold them to 1 percent per year?

Ambassador YEUTTER. It is less than 1 percent per year in every one of those agreements, and that is a lot of difference from where we are.

Senator HOLLINGS. That would be in conformance with the President's commitment that he made that he was going to limit the growth of imports to the growth of domestic consumption. That would be the first time that we got in lock step. Do you think that you can hold it to 1 percent?

Ambassador YEUTTER. Yes.

Senator HOLLINGS. Or less than 1 percent.

Ambassador YEUTTER. Obviously, there are other countries that are shipping in.

Senator HOLLINGS. Which one is going to go above, what is the other one? You have the three big ones in there, other than the People's Republic, what other one?

Ambassador YEUTTER. The fourth one was Japan that I just mentioned, and the People's Republic makes five. Those five together account for over 50 percent of all textiles and apparel coming in.

Obviously, the other 40 to 50 percent is not in that category in terms of the tightness of the constraints. So there will be more growth from the other countries that are shipping in, obviously. But when you have over 50 percent of all of the volume covered by bilateral agreements that are going to be in this category, that is a pretty tight constraint.

The China one is not yet done. It is in the process of being negotiated. But the other four are done, signed, and in effect.

GROWTH IN CHINESE TEXTILE IMPORTS TO U.S.

Senator HOLLINGS. China grew from 1.5 million square yards up to 13 million, the largest exporter of textiles to the United States, so they have become number one.

Ambassador YEUTTER. Yes.

Senator HOLLINGS. We look at the commitment, and you and I have agreed on what the commitment is, now you are saying that you are going to try to adhere to less than 1 percent. You don't intend to leave office, do you, because I want to try to get you next year.

[Laughter.]

Ambassador YEUTTER. From those countries, Senator Hollings, just to make sure that we don't have any misunderstandings.

Senator HOLLINGS. All right, from those countries.

Ambassador YEUTTER. I don't want you to challenge my credibility, I am talking about for those particular countries.

Senator HOLLINGS. The figures do, most respectfully, challenge your credibility because we were told that we were going to hold at 6 percent, and they said that this was impossible. Now, in the last 6 years running, it has been an average of 20 percent, 19.9 according to the Department of Commerce figures.

What that does to us, the 19.9 percent, it puts us out of business. You see, 53 percent of apparel and apparel fabric is now being imported. What you have to do is extrapolate and put that 20 percent each year for a couple of years, minus 1 percent in the growth of domestic consumption, and you will see that by 1989, you would have 90 percent of textiles being imported, and the business would be gone. It is that serious, and that is why I am always disturbed.

I am going to get to another point because I want to yield to my colleague, he has a very important meeting momentarily, then we can come back.

USTR CONTACT WITH NATIONAL SECURITY COUNCIL

Have you ever received calls from the National Security Council as our Trade Representative to follow a particular policy with a particular country?

Ambassador YEUTTER. I talk to people on the National Security Council regularly, Mr. Chairman, of course, because that is part of my job and part of their job.

Senator HOLLINGS. Is that right, that it is part of their job to consult with you regularly?

Ambassador YEUTTER. Certainly, and I talk to a lot of other people in the Government regularly, too.

Senator HOLLINGS. But the National Security Council, we have just heard a very formal presentation about it advising the President, they counsel with you regularly?

Ambassador YEUTTER. I call them, and they call me, that is part of their job and it is part of my job.

Senator HOLLINGS. So trade is in the National Security Council. You see, I thought I was smart a few years back, I was going to get trade in there. Now you are telling me that it is already there.

Ambassador YEUTTER. It is in in a relatively modest way, Mr. Chairman. If your comments reflect a concern that they are directing the policy, the answer is that they are not, and have not been during any time that I have been here in the last 20 months.

Our basic trade policy is done on an interagency basis and the Economic Policy Council. The National Security Council can have an input into that process, but it is the Economic Policy Council that handles all international economic policy decisions.

Typically, if a decision goes to that group, perhaps it would be helpful to take a minute to clarify the procedure. The way we handle trade issues is that they start out at the subcabinet level, or lower, in what we call the Trade Policy Review Group, which is chaired by my Deputy USTRs. If we achieve interagency consensus at that level, the subcabinet level, that is as far as it goes. It does not go to the cabinet group.

The National Security Council has the privilege, just like any other government agency, of having input into any of those discussions, if they see fit, but those meetings are conducted by my Deputy USTRs.

If the issue is not resolved, or if there is not consensus at the subcabinet level, then it comes up to the cabinet level, which is the Economic Policy Council, which is chaired by the President or in his absence, chaired by Secretary Baker as the Chairman Pro Tem.

This is an all cabinet level body, and the issues are debated there, and that is where the decisions are made. They are signed off there either with or without the President's participation depending upon whether he chairs on a particular day, and depending upon whether we achieve interagency consensus.

Senator HOLLINGS. That is Secretary Baker.

Ambassador YEUTTER. That is Secretary Baker as the Chairman Pro Tem.

If there is not an interagency consensus among the cabinet there, then it goes to the President for a decision. I make every presentation about trade issues that goes before that body. The National Security Council does not make those presentations, I make them, and I argue them.

Senator HOLLINGS. Very good. The reason I asked is that I am making a study. Like I said, I wanted trade to get in there, and I found out what I thought wasn't even in there is being constantly the exception. The National Security Council has been calling in to your office, the Philippines is an exception, or Turkey is an exception, Bangladesh is a special case. We only have 38, and I am up to a good number right now.

I am wondering why I am losing my shirt. I have fine agreements and everything else, and now I am going out of business more and more every year. By grade, they were grading a little while ago on TV, we would flunk. We have gone to a $170 billion overall trade deficit,

not just in textiles, but everything. It has spread like a virus to every commodity you can possibly think of. We are losing our industrial backbone.

Let me yield now to my colleague, Senator Rudman.

Senator RUDMAN. Mr. Chairman, thank you very much. I appreciate the chairman's yielding, I do have a meeting at 2:30 that I really have to be at. I have a couple of questions, two or three short, easy questions, Mr. Ambassador.

You were quoted in the Washington Post this morning as saying that you felt the Congress is being too "macho" about its trade bills.

Ambassador YEUTTER. Some Members, not all, fortunately.

Senator Rudman. Say that again?

Ambassador YEUTTER. Just some, not all. I didn't generalize to all.

ITC DECISION ON FOOTWEAR

Senator RUDMAN. I will just take you back to the footwear decision. You supported the position of the ITC.

Ambassador YEUTTER. Yes.

Senator RUDMAN. Yet, due to reasons, which I think we understand, the President just overruled it. He did not even modify it, he just rejected it.

Ambassador YEUTTER. That is correct.

Senator RUDMAN. Do you think that this might have something to do with the macho attitude around here?

Ambassador YEUTTER. If that is the only justification——

Senator RUDMAN. I didn't say only, I am very careful in my choice of words. I said, and I will requote it for you, do you think that it might have something to do with it—not everything, something, there is a difference.

Ambassador YEUTTER. Perhaps, Senator Rudman, but I hope that this is not considered justification for shooting ourselves in the foot, which is what, in my judgment, mandatory retaliation provisions would do. I happen to believe that those would be most unwise.

SEMI-CONDUCTOR INDUSTRY

Senator RUDMAN. Let's try another one. You have an agreement with the semi-conductor industry, for which I commend you for what you did.

Ambassador YEUTTER. Thank you.

Senator RUDMAN. The industry, however, says that it is not working. The Japanese are violating it at will. They are finding ways and means very artfully to get around it. The industry says, unless you put some sort of sanctions on Japan pretty quickly, we are going to throw out the baby with the bathwater. What do you think about that?

Ambassador YEUTTER. I spent a lot of personal time on that agreement, as you well know, many, many, many hours. It is a very sound agreement, and the most advanced agreement conceptually that this country has in the high technology area. If it works, it can be a model for a lot of things in this area, and it is a very, very sound agreement.

It would be most unfortunate if the agreement were breached by our Japanese friends, and clearly at this point in time, we are convinced that there has been rampant dumping in third country markets, that cannot continue.

As you probably know, my deputy, Ambassador Smith, raised that issue with his Japanese colleagues in Tokyo a couple or 3 weeks ago. He gave them an ultimatum on this issue. That ball is now in their court. If the situation is not resolved to our satisfaction, then we will take the next step assuredly.

Senator RUDMAN. I am delighted to hear that, because I will tell you how it works where I come from. It is your right to do anything that you want to do in negotiations, but once you sign an agreement, and the agreement is signed by honorable parties, if the agreement is breached, then it is not time to start negotiating again, it is time to take action. So I hope that we get the right answers from the Japanese, that they are satisfactory answers, and if they are not, you take action.

EXPORTING U.S. CONSTRUCTION

My last point is one that really fascinates me because it is on the other side of this whole trade issue. We are not talking about protectionism, we are talking about getting America into foreign markets with the kinds of things that America does best. Nobody questions the enormous capability of the American construction industry, the engineering industry. We are phenomenal in that area. We work all over the world. We have giant companies, we all know them by name. Bechtel is one that comes to mind because of a particular item that was called to my attention.

The Japanese are going to be doing about a $380 billion public works program over the next 15 years, using their estimates. The first major one is a major offshore, very unique, 24-hour airport at Osaka. That airport is going to cost somewhere in the vicinity of $6.5 billion. It is a pretty big project even by our standards. Thirty-five American companies qualified and were registered. Bechtel was awarded a contract for $200,000.

The Japanese are doing about $5 to $6 billion a year in this country as primary contractors. As a matter of fact, a Japanese company is building the U.S. Embassy in Cairo.

What are we going to do about that? What are we going to do about saying to the Japanese, we are all tired of empty promises and all of the putting it off from year to year, are you going to let our companies, who can really do this job as well or better than yours, into your markets to compete, or aren't you?

It is a pretty simple question. Are you or aren't you? If you are, then show us some proof. If you are not, we know how to respond.

What can we do about that?

Ambassador YEUTTER. That is an issue, Senator Rudman, that is receiving a lot of attention within the administration right now. Your colleague, Senator Murkowski has spent a lot of time on it here on

Capitol Hill as well, and has probably done more analysis on that subject than anyone. He has done a really first class job of being helpful and supportive on this issue with all of us.

The Commerce Department happens to have the lead on that particular question. When they come before you, you will want to pose that to Secretary Baldrige and his colleagues, because it is their lead on this particular negotiation, although we have been heavily involved, too. Ambassador Smith and Under Secretary of Commerce Smart both discussed this issue intensely with the Japanese when they were in Tokyo just 2 or 3 weeks ago.

As to what will happen, let me just make two comments.

The efforts of the Japanese thus far on that issue are completely unsatisfactory as far as I am concerned. I do not believe that we, as a government, can tolerate the situation which presently prevails on that issue. It has to change.

The question at this point is whether it will change by voluntary action by the Japanese Government—it is an issue that is now being discussed at the very highest levels of the Japanese Government—or whether it will change as a result of actions that we take.

Senator RUDMAN. Thank you, Mr. Ambassador.

I have this theory based on a lifetime of experience, and that is, quite often actions do indeed speak much louder than words.

We certainly can't be accused of being protectionist or adopting protectionist legislation by trying to get foreign governments to give our companies a chance to compete. So let me tell you what I intend to do. I want to tell you this here today so I might get Senator Hollings to go along with me on this.

I will bet that you could put together a very interesting little coalition up here of Republicans and Democrats, construction companies and labor unions, for the simple proposition that we will ban Japanese companies from any construction in the United States until there is adequate certification that American companies have a chance to construct over there.

This is not a parochial issue with me. There is not a New Hampshire company that would have the ability to do that kind of construction. But I think that if we are going to have trade deficits of $160 to $170 billion, one way to get them down is to get more qualified American companies to do things overseas.

So I want to see what happens here, but I want to tell you that while you may have a hard time getting a trade bill through this place, you wouldn't have much trouble getting a sanctions bill through that would put the onus where it belongs, on the country that was denying American companies the chance to compete.

I just want to say that to you today, and maybe we will get their attention. I do think that we could have a very successful legislative initiative on that. I think I could count the votes today to pass it in the Senate.

Ambassador YEUTTER. Senator Rudman, without commenting on your proposed legislation because, obviously, we haven't seen it yet, I would simply say that I cannot and will not defend the conduct of the government of Japan on that issue because I find it inexcusable.

Senator RUDMAN. Maybe this will help your negotiations in some way because I am very serious about it. It is very simple to draft and very easy to pass. I know just the vehicle to put it on that I think will eventually get to the President's desk.

Mr. Chairman, thank you.

Mr. Ambassador, thank you.

Senator HOLLINGS. Thank you very, very much, Senator Rudman. I will join with you on that bill, really not to get to the Japanese, I am trying to wake up my own crowd.

TRADE FRAUD

For example, you announced very proudly in December that we found outright fraud on the part of the Japanese. They were shipping Korean goods through in violation. We knew at least 40 million square yards had gone through. You announced very proudly that you had caught them. You issued a press release and made a big fanfare about the victory you had, when you really only cut it from 155 down to 130 million square yards.

There we are. I mean, when we think that we catch them, and there is outright fraud, and they admitted to the fraud, and everything else, it is like Boesky, when you get him with $500 million, and you get him to give back $200 million, and everybody says, "Look at what we have done." We are still going out of business. We are losing.

Would it shock you, Mr. Ambassador, to know that the Secretary of Commerce came up and said that the semi-conductor agreement that you think ought to be a model is a failure? He just testified to that on Tuesday morning.

Ambassador YEUTTER. As of today, it is a failure, and I would concur with that. Secretary Baldrige participated very heavily in the negotiation of that agreement. As I said, I think that it is a very, very sound agreement but, obviously, it is not a sound agreement if it is breached.

Senator HOLLINGS. Right, and in trying to force the price, and everything else, you are forcing the domestic producers to go overseas. I hope that we don't use that as a model.

Ambassador YEUTTER. We are certainly not trying to fix prices, Senator Hollings. That agreement does not fix prices at all. It certainly is intended to raise price because it is intended to prevent dumping.

If you, or others in the Senate, would like to repeal our antidumping legislation, obviously, you are privileged to do that. I think the Congress passed the antidumping law by a gigantic margin sometime in the past, and I suspect that there would be enormous opposition to termination of the antidumping provisions of the law. All we are saying in that semi-conductor agreement to the Japanese is thou shalt not dump. The fact of the matter is, unfortunately, they are still doing it.

ROLLBACK COMMITMENT

Senator HOLLINGS. You don't have to posture to Congress, Mr. Ambassador. We are not about to repeal the antidumping law, we are trying to get enforcement. You know that and I know that.

We can't even get 301. When you left Punta Del Este—what is the past tense of foregone, forewent or whatever it is—you certainly compromised any position. If I can find it, I can get the language of it. You said that the United States will agree to a standstill and rollback commitment.

In other words, if you are going to have a rollback, you have no authority to do that, but if you are going to have rollback, that means that we are tying our hands to use 301. Why did you agree to that as you left Punta Del Este.

Ambassador YEUTTER. We did not tie our hands on Section 301 in any way, in my judgment, Senator Hollings. I do not construe our rollback commitment in any way do that. If there are foreign governments that are suggesting that is the proper interpretation, then I disagree with those foreign governments.

That is not the interpretation of this government. That was not the intent of the rollback provision as far as we are concerned. We believe that we made that perfectly clear during hours and hours of discussion in the preparatory committee in Geneva long before it reached Punta Del Este.

Rollback, as we interpret it, Mr. Chairman, relates only to the rollback of provisions that are inconsistent with the GATT, that is, we are obligated not to do things that are inconsistent with the GATT. I am perfectly happy with that kind of a commitment.

Putting it another way, what it requires participating nations to do, Mr. Chairman, is to agree to a schedule for the rolling back of GATT inconsistent measures that they have in effect. Under the rollback commitment at Punta Del Este that scheduled rollback, or that scheduled procedure, must be agreed to by the end of the negotiations in Geneva.

We don't happen to have anything in that category that is GATT inconsistent, therefore, we don't believe that the rollback commitment is going to be relevant to us unless we do things between now and then that are GATT inconsistent. We don't believe that it any way affects our privileges and rights under Section 301.

TEXTILE PROPOSAL UNDER GATT

Senator HOLLINGS. Under GATT, then you must like our new textile bill.

Ambassador YEUTTER. We are convinced that the textile proposal has a lot of GATT problems, Mr. Chairman, which I will be glad to share with you, if you would like me to do so.

Senator HOLLINGS. I wish you would. You could do it in writing, if you wish. Generally speaking, I am nonplussed that we do come from the multifiber arrangement onto the GATT provisions in this particular textile bill. Do you see it differently?

Ambassador YEUTTER. Yes, very definitely, and I will be happy to provide you with a memorandum on the subject, if you would like. Obviously, when you are dealing with GATTology, it is a complex subject, but I would be happy to tell you what we believe are the GATT shortcomings of the proposal, if you would like to see them.

[The information follows:]

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

March 16, 1987

The Honorable Ernest F. Hollings
Chairman
Committee on Commerce, Science
and Transportation
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

During the recent Appropriations Subcommittee hearings you asked whether S. 549 would accord with U.S. international obligations. Enclosed is a memorandum on this issue from my General Counsel.

Sincerely,

Clayton Yeutter

Enclosure

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

March 13, 1987

MEMORANDUM

To: Ambassador Yeutter

From: Alan F. Holmer
General Counsel

Subject: Legal Assessment of The Textile and Apparel Trade Act of 1987 (S. 549 and H.R. 1154)

Per your request, the following memorandum examines the proposed Textile and Apparel Trade Act of 1987, S. 549 and H.R. 1154 (S. 549 hereafter) in relation to the international obligations of the United States. It concludes that enactment of S. 549 would violate the Multifiber Arrangement (MFA), a number of bilateral agreements, and the General Agreement on Tariffs and Trade (GATT), and does not contain adequate compensation authority to avoid likely retaliation from our trading partners.

Summary of S. 549

The features of S. 549 which bear directly on our international obligations are as follows:

(1) a Congressional finding that increased imports of textiles, apparel and non-rubber footwear are causing or threatening serious injury to the domestic industries;

(2) a global quota for each textile and apparel category set at 101 percent of 1986 trade for 1987, with one percent annual growth thereafter;

(3) a global quota on each category of non-rubber footwear set at 1986 levels, with no growth allowed, for each year beginning with 1987, and a further requirement that imports of non-rubber footwear valued under $2.50 within each such category must also be frozen at 1986 quantities;

(4) compensation authority for the President, limited to a ten percent reduction in existing textile, apparel and footwear duties (e.g. from 20 percent to 18 percent), with a requirement that any reductions be phased in over five years; and

(5) a prohibition of any reduction in textile apparel and non-rubber footwear duties under any other provision of law except through the above compensation procedure.

Analysis

Effect on U.S. GATT Obligations

The drafters of S. 549 have incorporated a Congressional finding of "serious injury" and certain other provisions with the stated intention of justifying the action under Article XIX of the GATT.

However, the bill does not conform to Article XIX of the GATT.

Article XIX requires a determination with respect to each product restricted that there have been increased imports of that product which are causing or threatening serious injury to domestic producers of a like or directly competitive product.[1] S. 549 substitutes for this item-specific analysis a general Congressional finding that increased textile, apparel and footwear imports are causing or threatening serious injury to the respective U.S. industries generally, with certain broad "evidence" of increased imports and injury provided in support. S. 549 fails to provide for the careful assessment of imports, injury, and causal linkage between imports and injury that would be required for each product to be restricted under GATT Article XIX.

In practice, it is highly doubtful that such findings could be made consistent with Article XIX in the case of all these products, With regard to textile and apparel products, imports are declining in many categories. In other categories, import penetration is not great enough to cause or threaten injury, or the domestic producers may not be injured, or already existing protection under the MFA regime may be sufficient to prevent serious injury from imports. Likewise, the bill summarily restricts all nonrubber footwear imports, even though low priced footwear was excluded from the International Trade Commission's serious injury finding in 1985.[2]

In addition, Article XIX provides that import relief may be offered only in such degree and for such time as is necessary to prevent or remedy the serious injury -- and it is well-established GATT doctrine that degressive measures should be employed whenever possible. Accordingly, U.S. safeguards actions under section 201 of the Trade Act of 1974 are limited to five years (extendable to a maximum of eight), with provisions for gradual phasing out of relief after three years. The proposed bill, on the other hand, offers permanent protection with no degressivity provision. While the bill provides for a tenth-year review by the Secretary of Commerce, it makes no provision for termination of relief at that time, or ever.

The United States has a section 201 process which domestic producers of any textile or apparel product could use to seek escape clause relief in accordance with Article XIX of the GATT. Preemption of that process by a sweeping Congressional finding would not be construed as a legitimate safeguards action.

Effect on U.S Obligations under Bilateral Agreements and the MFA

Passage of S. 549 would violate many of our 38 bilateral restraint agreements by unilaterally establishing global quotas which would preclude many countries from reaching the individual constraint levels we have negotiated. This would require immediate notice that we are terminating those agreements and would involve a breach of those agreements during the notice period.

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[1]The "particular product" requirement is frequently referenced in the text of Article XIX. For example, the article is entitled "Emergency Action on Imports of Particular Products." Paragraph 1(a) reads, in relevant part,

> If . . . any product is being imported. . .in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers . . of like or directly competitive products, the contracting party shall be free, in respect of such product . . . [to take relief measures]. (Emphasis supplied).

[2]The 1985 ITC exclusion of low priced footwear covered 20 percent of all imported footwear, by volume.

Furthermore, the bill would violate the MFA by setting unilateral and global quotas. The MFA does not provide for global quotas. It permits unilateral restraints on particular products from particular countries that are found to be causing or threatening market disruption. These restraints must be imposed on an item- and country-specific basis.

The MFA does contain, in Article 1, a "savings clause" which, technically, reserves countries' rights to take actions (including safeguards actions) consistent with the GATT.[3] However, as seen above, the proposed bill would breach U.S. GATT obligations under the safeguards provisions of GATT Article XIX and therefore would lie outside this savings clause of the MFA.

Beyond these legal consequences, enactment of this legislation could destroy U.S. participation in the MFA. The Arrangement is an agreed derogation from standard GATT procedures that reflects a delicate balancing of interests among textile importing and exporting countries. Under the MFA, importing countries gained the right to obtain import relief without the requirement (of GATT Article XIX) to first show actual or threatened "serious injury" caused by increased imports of each product, and without the obligation (imposed by Article XIX) to pay compensation for the relief obtained.[4] Exporting countries acquired, in exchange, the right to enter into negotiations concerning the level of relief for selected products, within reasonable limits.

For the United States to take the actions proposed in this bill would undermine the premises and intent of the Arrangement. It would precipitate a confrontation with our major trading partners, and result in either a massive compensation obligation or the imminent prospect of retaliation.

Adequacy of Compensation

The compensation authority provided in the bill is wholly inadequate to avoid retaliation under Article XIX. The only compensation permitted is a ten per cent reduction (e.g., 20 percent to 18 percent) of the duties on footwear, textiles and apparel. Since these products will all be under tight quota restrictions, the duty reductions are not likely to provide significant compensation. The Administration does not now have other compensation authority with which to fill the shortfall left by this bill. As a result, we can expect significant retaliation from our trading partners if this bill is passed.

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[3]. The MFA provides that "[t]he provisions of this Arrangement shall not affect the rights and obligations of the participating countries under the GATT." Arrangement Regarding International Trade in Textiles (MFA), Art. I:6, GATT/1974-2.

[4]The MFA does require a claim of "market disruption" as the basis for import restraint. However, in practice this is a less rigorous standard than the "serious injury" requirement of Article XIX.

COMPLEXITY OF TRADE PROPOSAL

Senator HOLLINGS. I agree that it is complex, and that is why I talked to several trade lawyers much smarter than most, including some in your offices. The one thing about this, it puts us back onto GATT, which was complained about in your last bill. That is why I am asking the question.

Ambassador YEUTTER. We will have to see if we can determine who in USTR came to that conclusion, which is obviously the responsibility of the general counsel of the USTR. We will be happy to provide you a memorandum from the general counsel of the USTR who, I think, is an outstanding trade lawyer.

Senator HOLLINGS. Let's look at language that we can all understand. When you start with the general principles down at Punta Del Este, you say, these are the general principles governing the negotiations, and I quote, "The developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial, and trade needs."

Now if they are not going to make any concessions, if they are not going to have anything interfere with their development, financial or trade needs, then why even go to a conference, what do you get? You have sold out before we get around the table.

Ambassador YEUTTER. I wouldn't come to that conclusion, Mr. Chairman.

LANGUAGE INTERPRETATION

Senator HOLLINGS. How would you interpret that language that you have committed to?

Ambassador YEUTTER. I would interpret that language as being essentially identical to the language, which was followed in the Tokyo Round of negotiations in the 1970s, which allowed for what people in the GATT call "special and differential treatment" for the developing countries. In my judgment, all that language says is that the concept of special differential treatment which was applied in the Tokyo Round will also continue in the Uruguay Round. To me that does not change the world at all.

We will be negotiating with those lesser developed countries in Geneva, and clearly we will negotiate one by one, product by product, issue by issue. We are not going to be bringing an agreement back to this Congress, for approval by you or anybody else, unless we feel that it is in the best interest of the United States and it is properly balanced.

We share the basic concept of special and differential treatment, Mr. Chairman. I don't think that we should ask the same of the LDCs on many issues as we ask of our developed country partners. I think that we all have an obligation in this world to try to help our brethren who are less fortunate than we. I think that we, as a nation, can afford that. I think that it is the proper thing to do as human beings on the face of this earth.

I think we ought to do that in the Uruguay Round, as well as in a lot of other ways. But I happen to think anything we will do in that regard, we ought to be able to defend to you, and I am prepared to come back and defend it.

FOREIGN COUNTRIES WITH TRADE SURPLUSES

Senator HOLLINGS. The LDCs that this is meant for, Hong Kong has a $6 billion surplus; Korea has a $7 billion surplus; Taiwan has a $15 billion surplus. Are these the less developed countries?

Ambassador YEUTTER. Those are what I would call newly industrialized countries. Some may be in the LDC category. We will clearly make a differentiation between those countries and a lot of the other LDCs as we conduct the negotiations.

There won't be much negotiating with Hong Kong, of course, because as you know they are a free and open trading society, and they don't impede our trade in any way. They are not likely to be a terribly active participant in the negotiations because there is nothing that we really need to ask of them to do for us.

In terms of what we would do for them, clearly, we will do less for the newly industrialized countries in the way of any concessions that the United States might make in the Uruguay Round than we will for some of those who would be less fortunate. As I said, we will come back with a product that we believe we can defend to you, or we won't bring it back.

Senator HOLLINGS. That is very interesting, because you are our representative for textiles, to find that Hong Kong does not impede. The fact is that they import $1 billion in textiles from Japan, and sell zero in downtown Japan. They export to the United States $1 billion in textiles, and import zero from us. Why can't we do like the Japanese, and cut out that impediment, as I see it?

U.S. EXPORTS TO HONG KONG

Ambassador Yeutter. I am not aware of any constraints on American exports going into Hong Kong.

Senator HOLLINGS. Is that because the people are either dumb or unproductive.

Ambassador YEUTTER. I would hope not, Mr. Chairman. I am certainly disappointed that we haven't expanded exports more than we have in recent months as the dollar has fallen. I think we have some excellent export opportunities around the world, including Hong Kong.

I hope that our textile industry, as well as our other industries, will take advantage of those. Businessmen have to make their own judgment as to whether they can effectively penetrate export markets. If they can, I hope that they will try to make a buck. If they choose not to, then of course, that is their decision. They have to rise and fall with their shareholders, based upon their performance.

TEXTILE TRADE WITH EEC

Senator HOLLINGS. That is not the experience of the European Economic Community, they rise and fall with their governments. They had a $4 billion deficit in the balance of textile trade when this administration came to office in 1981, and we had $4.7 billion.

Theirs has gone down, it has been cut in half, to $2 billion, without retaliation, because we always say that we are going to get retaliation. They handled it with their governments. We, in contrast, with a Special Trade Representative, and all this big office that you call small, it is putting me out of business, it has gone up now to a deficit of $21.5 billion.

What am I going to do? How do you suggest that I get hold of this problem? When I think that I have a hold of it, you are telling me that it is the businessman.

Ambassador YEUTTER. I think both government and business have responsibilities in these areas, Senator Hollings. You have been a Governor, and you know that from the State level as well as from the Federal level. I have been in the private sector myself for a good many years, as well as in the government. I think we both know very well that there is a role for government in all of this, and there is a role for the private sector in all of this.

I think we also know that there are particular reasons why volumes and dollar values of textiles and anything else increase and decrease on the export/import scene. Clearly, exchange rates have a lot to do with this, and in terms of U.S.-European relationship that is exceedingly important. Without doubt, in my judgment, we will see the benefits of some of the exchange rate movements on trade patterns in the coming months, including the textiles area.

I happen to think that with a combination of what is happening in fiscal and monetary policy, and what we have been doing on bilateral arrangements, our textile and apparel industry is going to feel a lot better in 1987 than it felt in 1986.

Not all products, of course, move on the basis of price, Mr. Chairman. One of the reasons the Italians, for example, have done so well in textiles and footwear and other products, is that they have done a magnificent job on style and quality, and our firms are going to have to be able to match those things if they are going to be successful in this world. If they can, they will succeed, and if they can't, they will probably continue to lose the race to the Italians and others who do a better job than they do.

PRODUCTIVITY OF U.S. TEXTILE FIRMS

Senator HOLLINGS. It has increased already this year, you said. It has increased 12 percent in January. It is continuing to go. I am hearing about less than 1 percent from the major participants. Then I hear style.

I just think of Carolina Fabric, it is in Greenville, the fellow who is drawing up the design throws it on a satellite, a half-hour later he gets an order from downtown Sidney, Australia, all the way around the globe.

I have seen my own industry make an investment of $8 billion in mechanization and computerization; it's all electronically controlled. They even have them psychologically reading quality is good by Crosby and all of these other "supe them up" things to get them "jazzed up," and what-have-you. They have increased the productivity by 5 percent each year for 10 years. This is the most productive of all productive industries. Then you are telling me that I am out of style, and businessmen have got to do better.

You know what the problem is, and that is the style of living that you and I, as a government, enforce. We just passed Clean Water in January, and that goes into the cost of production. We are bound to continue with the minimum wage, unemployment compensation, Social Security. We might add on maternity leave, and that adds to the cost of production. That is the American standard.

How can I compete with the 18 cents an hour in downtown Shanghai, and their billion Chinese there ready to go to work?

Ambassador YEUTTER. In some products, Mr. Chairman, that is going to be very difficult, indeed.

Senator HOLLINGS. It is not difficult. It is possible by using our government. Why the distraught nature. You have the role. You have the responsibility. You act like somebody over the Department of State, all teary, that somewhere down the road it is going to be very difficult to enforce these laws.

We don't enforce them. We lose out at every turn. We lost out in textiles over the President's commitment. We are 80 percent gone in shoes. You can go over to the mechanized, the most advanced of technology, the Hudai case, those are the semi-conductors. If you go to communications, we have gone from a $225 million surplus last in 1982 to a $2 billion deficit.

It is happening all around, not just textiles. I think that the administration got the idea that that fellow is a cry-baby on account of wheat, and that fellow is a cry-baby on account of textiles. It is all of America, it is its industrial backbone.

Ambassador YEUTTER. I don't agree it is all of America. You are articulating the case for all those who are not doing well. I happen to think that in some of the categories you have mentioned, we are doing pretty well.

Our textile industry is doing very well indeed today. I saw the figures our capacity utilization for December, and it was about 95 percent, that is just about as much as one can produce. So the textile part of this business is doing very well indeed. It is the apparel part of this business that is having some difficulties.

Senator HOLLINGS. Let me correct that, I mean, it is closing down. It is closing down like J.P. Stevens. I can give you a list of the various divisions that have had to get rid of all the employees as momentary tax things before the tax reform, taking advantage of it, and going up to that level. We have lost 250,000 jobs, and 200,000 from apparel in the last 6 years, and 150,000 from textiles themselves.

Ambassador YEUTTER. You also know very well, Mr. Chairman, a lot of those textile jobs disappeared because of modernization, and appropriately so. We could run everything in the United States on the basis of hand labor, if we wanted to, but we substitute capital for labor. That is a part of the development process of this Nation, and it is going to happen in all industries, including textiles.

As we use labor more efficiently, we don't need as many people in textile mills as we did before, and a lot of other places. I happen to think this is good. Those people can then go on to other jobs, if we create the jobs for them, and I think we are creating the jobs for them.

They may not all be in South Carolina, and they may not all be jobs for which those textile workers are qualified. But I don't think that we can have economy be static. I don't think that you, as the Governor of South Carolina, wanted the economy to be static. We have a vibrant, capitalistic economy, and we have to adjust to that.

Senator HOLLINGS. We are not static. Now that I am hearing about retraining, and retraining. Everybody is running around like they just came to government, or government started yesterday.

The only reason that we have been dynamic is because we have put in the best training facilities. We have the Digitals. We have the Cincinnati Millicron. We can compete. We are making robots for Japan in the middle of Ohio. We have contracts. We have the Japanese come. We have 13 plants, and they are not sending them back to Tokyo to learn company songs, they say that we are more productive.

So I know about all of that, but even then I am losing. I am closing Cummings Engines that was productive and increased its productivity, but it is going down to Mexico on account of the hourly wage and less requirements in their standards.

I brought in Pratt and Reed, and they have gone to Mexico. They are meeting the international competition. I brought in the GEs, and now they have five GEs down in Mexico. We have lost one of my four. I could keep on giving the list. We used to always announce the opening, but now we have to announce the closings and the leaving.

We studied it closely. Way down there where the rubber meets the road, we know about all of this Washington stuff of retraining, and we all have to be educated, and try to speak Japanese. Money talks, we all know that.

The American industrial worker, we heard it yesterday at the cabinet table, thank gosh somebody knows it, the American industrial worker is still the most productive in the world. So if you are the most productive, and you are trying to maintain that high standard, if you are trying to maintain your capacity, your industrial backbone, and you are down

$170 billion, even with the devaluation of the dollar, it keeps going up, something else has got to be done. What else would you suggest?

Ambassador YEUTTER. I happen to think the deficit has bottomed out and it will be coming down. If we keep doing the right things in policy here, and if we can convince some of our other countries to do the right thing, it will come down a lot more.

Senator HOLLINGS. How do you convince them, you know, with rhetoric?

I don't blame the Japanese. I saw them in the Fish Room with President Kennedy, and as long as we go all around and bow to each other, and scrape, be nice to me, and I am nice. But when we get tough intensely, they use all of this Washington rhetoric.

RETALIATION TO UNFAIR TRADE PROGRAMS

All we have to do is use a little retaliation. Make it cost. That is how we did it with terrorism. We made Mr. Qadhafi realize that terrorism costs, and we haven't heard from him since. We should be acting similarly in trade. It is an economic money matter. It is not the language, or the productivity, some of it always goes into it. But we are not making it cost. We continue to get more people for more conversation, more rhetoric, and we are going out of business.

Ambassador YEUTTER. Mr. Chairman, we have done more in the way of retaliation in the last 20 months than has this government in the last 20 years, including some that helped your State incidentally.

You have a major tobacco industry, and that was one of the most successful negotiations that we have had in the last 3 or 4 months which involved opening the Japanese tobacco market. We did that through a threat of retaliation. This will make a very significant difference to the American tobacco industry.

So we do succeed once in a while, and I hope you will give us credit occasionally when we do.

Senator HOLLINGS. They have increased the price. I know in Korea, I just got back from there, it is three times the price.

Let me yield to the distinguished Senator. I am glad to have some support around here.

Senator LAUTENBERG. I don't think that you have the support that you deserve, Mr. Chairman.

FCC AND TRADE

Senator HOLLINGS. Let me say, Senator Lautenberg, when you asked the Federal Communications Commissioner if he had any responsibility whatsoever for trade, and he said no.

Senator LAUTENBERG. Yes.

Senator HOLLINGS. We had him before the Commerce Committee yesterday, and he finally agreed. You have an administrative body, and it is supposed to administer the common carriers, AT&T, and all these other things. You have a competitor in Fowler. He has learned from Senator Lautenberg that he has to do something about it.

He finally admitted now that he does have a responsibility, and he is going to put in his orders certain requirements about domestic production, and everything else, and that is because the U.S. Trade Representative is not doing his job.

Ambassador YEUTTER. Mr. Chairman, you can come to whatever conclusions you want, but if you believe that we are not doing anything in telecommunications, then you are just dead wrong. That is just an unfair evaluation.

You ought to get the facts before you come to that kind of an evaluation, because I don't agree with that at all. Telecommunications is one of our highest priorities, Mr. Chairman. We spend a lot of time on that within the U.S. Government and within the administration. It just isn't fair to come to that kind of a conclusion.

If you think that I am not doing my job, you ought to tell the President and ask him to appoint a new U.S. Trade Representative. I am telling you that we are doing a lot of work in telecommunications, and I think that if you ask the U.S. telecommunications industry, they will agree with that.

Senator HOLLINGS. I am telling you that the Chairman of the Federal Communications Commission has come to that conclusion.

Ambassador YEUTTER. He has not told me that, Mr. Chairman.

Senator HOLLINGS. Go right ahead.

Senator LAUTENBERG. I didn't mean to start such a fuss here. I was wondering, Mr. Chairman, whether you were going to go from the case of Qadhafi, to try to use that to get some trade.

Senator HOLLINGS. I will try anything to get their attention.

Senator LAUTENBERG. Ambassador Yeutter, nice to see you.

Ambassador YEUTTER. Thank you, Senator Lautenberg.

PROTECTION OF INTELLECTUAL PROPERTY

Senator LAUTENBERG. I have a couple of questions that I just want to get on the record.

I have been interested, as I think you know, in protecting intellectual property.

Ambassador YEUTTER. Yes.

Senator LAUTENBERG. I worked to tie GSP to intellectual property protection, and we have seen, I believe, some positive results. Section 301 action also led to positive results.

Ambassador YEUTTER. Yes.

Senator LAUTENBERG. I have put in a bill to streamline the process at ITC to keep infringing goods from coming out under 337. I put in a bill to expand the process of patent rights as well to cover foreign infringements that result in products being sold here that are copied.

I really do want to applaud your efforts in this area.

Ambassador YEUTTER. Thank you.

Senator LAUTENBERG. You have been working hard and yet, as you well know, we still have a long way to go. We have to stop the ripoff of American ingenuity because that is our only edge. If that is stolen, then we have a much more serious problem than we presently encounter.

Intellectual property is on the agenda for the Uruguay Round, and I think that we need to establish a minimum standard of intellectual property right protection. We need to set rules against compulsory licensing, and working requirements. On the other hand, there has been an on-going effort to establish an anticounterfeiting code.

If you had to set a priority as between minimum standards of protection of all forms of intellectual property and getting the code, which way would you go?

Ambassador YEUTTER. I would answer a different way from which the question is posed, if I might, Senator Lautenberg. I do this not to avoid the question, but to sort of embellish on that.

In my judgment, it should, in no way, be an either/or proposition. In othe, words, we ought to come out of the Uruguay Round with an antficounterfeiting code and with major improvements in the overall intellectual property sphere. I would rather not look at it in terms of do we take one or the other. I am convinced that we can do both.

If I were to choose, and make that regrettable choice, I would obviously choose——

Senator LAUTENBERG. No, I don't want you to make a choice. This is not solely Option A or Option B.

How do we best protect, or how do we make certain that there is no way to skirt around the protection standards so that we accomplish the job? And are we going into this thing with an opportunity to do something positive?

Ambassador YEUTTER. Yes. We are going to spend a lot of time on this issue, Senator Lautenberg. As you know, we have already spent a lot. It is incredible the number of problems and challenges in this area. It is just incredible.

I believe I mentioned to you last year, when we had a colloquy on this, that when I was Deputy STR in the mid-1970s, this was not even an issue. Nobody talked about intellectual property. I come back to government 10 or 12 years later, and everybody in the world is talking about what a tremendous threat and challenge there is in the area.

We are going to continue to work the bilateral side of this issue very hard at the same time we are working the multilateral side in Geneva. But in terms of the latter, which is really the thrust of your question, we will counsel in a comprehensive and very careful way with the industry on our negotiating strategy as we go along, and that is why we have the private sector advisory committees. We will try to develop what we believe is a sound strategy to get the maximum results in Geneva.

I am really convinced, Senator Lautenberg, that we have to have it all. We can't afford to take half a loaf. We have just got to exert the energy and the pressure to get it all.

Senator LAUTENBERG. The code affects only trademarks.

Ambassador YEUTTER. Our counterfeiting code?

Senator LAUTENBERG. Yes.

Ambassador YEUTTER. I am not sure about that because I haven't looked at it in a long time, but obviously it is not comprehensive.

EFFECTIVENESS OF GSP IN PROPERTY PROTECTION

Senator LAUTENBERG. GSP has turned into an effective tool to promote more effective intellectual property protection. Where do we need more leverage? Which countries do you see as not responding to the threat of GSP withdrawal?

Ambassador YEUTTER. GSP has really worked quite well thus far, and I commend the Congress for adding the intellectual property provisions to that law 2 or 3 years ago. That has been a very useful authority.

However, to be specific on your question, in terms of the recent analysis that we did, the leverage worked with the exception of perhaps just one or two countries. I would have to go back and review the notes again to give you a definitive answer; however, the one country that was particularly disappointing in this regard was Mexico.

We were hoping that the GSP exercise would provide some additional leverage in obtaining greater intellectual property protection in Mexico. Although Mexico has improved their protection somewhat, the provisions of their law today are, in our judgment, inadequate. We are disappointed in the leverage that GSP provided in that particular country. There may have been one or two others, but I don't recall them off-hand.

Senator LAUTENBERG. The effort to negotiate minimum standards on intellectual property protection in the GATT round, will they diminish your ability to deal with the problem on a bilateral basis?

Ambassador YEUTTER. No, sir. Obviously, we have to make judgments on priorities in terms of people's time and their intellectual prowess. We can't do everything simultaneously. To some degree, clearly, we will be devoting more resources into the multilateral side because of the Uruguay round than we were earlier, and that may trim back, to some degree, our bilateral effort on all topics, but not very much, certainly not much in this area.

I will give you my personal assurance that it is such a high priority topic that if and when we make priority determinations, and we have to give up some effort somewhere, it will almost assuredly be elsewhere.

Senator LAUTENBERG. I would urge you to pursue this problem wherever possible bilaterally, because with the GATT round, you are looking at a long-term effort, and a lot of damage could be done in that period of time. I think that we ought to get on with it.

Ambassador YEUTTER. I concur with that, and I would simply emphasize it for you by saying that we cannot tolerate piracy, or the continuation of piracy. We cannot wait 4 of 5 years to respond. We have to do something sooner than that.

We have a lot of countries in which that has to be done, and not all of them are developing countries either, as you know. We have problems in this area with some of our developed country partners as well. There are just lots of problems in lots of different places.

SOUTH AMERICAN NATIONS RESISTANT TO INTELLECTUAL PROPERTY PROTECTION

Senator LAUTENBERG. Brazil and India are among the nations that are most resistant to intellectual property protection. We have had other problems, with Brazil in particular, and I am not talking about the more current things out of your sphere. How do we deal with this resistance, and where do we stand on Brazil's informatics, information policy?

Ambassador YEUTTER. Of the two, I would say that Brazil is the greater problem in the intellectual property area, or at least the more imminent one from our standpoint, particularly because we have a section 301 case against them.

I am by no means satisfied with the progress that has been made thus far in Brazil. We extended the time period of the 301 case until mid-year, as you probably know, Senator Lautenberg, because the Brazilian Congress was not going to be able to deal with some of these issues until the spring.

Brazil, as you undoubtedly know, developed a proposed intellectual property law late last year that has now been submitted to their Congress. We are not satisfied with the content of that law; we have asked the Brazilians to improve it dramatically. Also, we are not satisfied with Brazil's enforcement of the rudimentary laws that they already have, nor are we satisfied with the way they treat the whole informatic sector generally, which is why we have a section 301 case. We will continue to negotiate with them over the next few months, but we have a long way to go.

Senator LAUTENBERG. You have to press very hard there because of the various problems we have with Brazil, including the current one that everybody is reading about. They have been very tough on the information processing policy. I used to do business there, when I was in the corporate world, and they were very hard. I think they have to understand that we are very serious about it.

I have to tell you that I understand the chairman's discontent very clearly, because it is frustrating to see our telecommuncations business go from a trade surplus of $200 million in 1982 to a deficit approaching $2 billion now. We have just got to get on this problem.

With the deregulation of AT&T, we just opened the market. We said, OK, everybody come in and mine the treasure, our treasure. A lot of their mining involves ideas developed here. We have to do something. This goes back some time, but I was in Japan, and I talked to the head of Nippon T&T, he was very happy that they had a couple of hundred million dollar contract with AT&T to supply some material, which is peanuts on the basis of their total purchasing requirements.

There is a certain, let me call it, smugness that I see. It is easy in America. They think you give them a wink and a handshake, and every now and then, why, you have to give them something, throw them a bone, but the pickings are pretty good there, to put it crudely.

The chairman has a way, with his Southern style, to make it more dramatic.

Senator Hollings talked about the FCC, and their taking up an initiative to try and use regulatory powers to get reciprocal access.

Ambassador YEUTTER. Yes.

Senator LAUTENBERG. Do you support that initiative? Do you need help, by the way, to get that?

Ambassador YEUTTER. Certainly, Senator Lautenberg, anything that we can do to provide additional leverage would be helpful. As a negotiator, I am a great believer in leverage. Therefore, anything that emerges in the way of leverage would be useful to me and to our negotiating teams.

I was not here when we unilaterally disarmed in this area a few years ago, as you mention. If I had my druthers, I would rather that we had not done that, because the United States makes a mistake each time we do something unilaterally and obtain nothing in the way of a tradeoff for it. It is one of the reasons that we are playing catch-up, if you will, in telecommunications negotiations today.

Let me go on to say that this is a tough negotiating area for a variety of reasons. It is one of the toughest subject matter areas of all to negotiate. We will clearly continue to spend a lot of time on the issue bilaterally with a variety of countries, and multilaterally.

URUGUAY ROUND

We have not talked about the Uruguay round in this respect, Senator Lautenberg, but we really ought to use the Uruguay round as well, both in terms of getting the basic and fundamental rules developed on services generally, which would include telecommunications, and then zero in on some specific areas where we would try to make major progress.

We have not yet defined which of those areas will be our priorities in the Uruguay round; however, our thinking at the moment is that we will try to articulate, perhaps, two or three major areas on which we would try to engage in sectoral negotiations that would go a long way to open up world markets. One of those will very likely be telecommunications.

It may well be that we will achieve more in that particular sectoral negotiation than we will in the bilaterals, but we ought to work both. Let's try the sectoral negotiation in the Uruguay round, which may be a little longer in term, and let's work the bilateral side in the interim as well.

Senator LAUTENBERG. One thing that we see happening is that we are now bringing other ammunition to shoot at these targets, and there are a lot of people who have expressed concerns about the FCC getting involved in trade matters.

Ambassador YEUTTER. Yes.

Senator LAUTENBERG. Feankly, Mr. Ambassador, in all due respect, it is out of frustration that we start to look for other ways to deal with the problem.

Ambassador YEUTTER. Yes.

Senator LAUTENBERG. We need your help desperately, I think. There are a lot of industries now in our country that look like they were forever going to be the leaders in the technology, telecommunications in particular, and now we are seeing us fall back rather rapidly. The reason is that companies in other countries have gotten a heck of a headstart by just infringing our ideas and our patents, and then taking advantage of an open marketplace that didn't exist before.

We would request of you that you get as aggressive as you can be. I, frankly, am one who is less concerned about the flag of protectionism as I am about making certain that we are dealing with our trading partners on a fair and equitable basis. We can't be the only Boy Scouts in the bordello, to use the expression. We are out there where the stakes are big.

This is the quarry that is precious. This is where everybody now is looking at opportunities, the high technology area. I don't think that we can get into this battle with one hand tied behind our back.

Ambassador YEUTTER. I certainly agree, Senator Lautenberg. I would only say that I haven't read too many foreign newspaper articles lately that have referred to me as being in the Boy Scout category.

Senator LAUTENBERG. Not even there or anyplace?

Ambassador YEUTTER. No.

Senator LAUTENBERG. Thank you, Mr. Ambassador.

Thank you, Mr. Chairman.

Senator HOLLINGS. Thank you, Senator.

Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

Mr. Ambassador, welcome. It is good to see you.

Ambassador YEUTTER. Thank you.

INEFFECTIVENESS OF U.S. TRADE LAWS

Senator SASSER. Let me say, Mr. Ambassador, I have long been concerned about what I perceive to be an ineffectiveness of our trade laws. Let me just give you what I think is a classic example, and it is the example of the shoe industry.

Not too long ago, every single person on the International Trade Commission, including Chairwoman Liebeler, found that the shoe industry was suffering damage from imports. They made this finding after the law had been changed here in the Congress to give them the authority to make the finding that we heard indirectly ought to be made.

They made the finding that the shoe industry was suffering irreparable damage as a result of imports, certified it to the President, and the President did nothing. The administration so seldom grants relief on these matters that it appears to me that our trade laws are almost meaningless.

I suppose my question to you is: Can we look forward to a reform in conduct? Can we look forward to any prospect of the relief mechanism being applied? I am saying, if we don't, we are not going to have any alternative except to come up with some legislative alternatives.

Ambassador YEUTTER. Just to comment on that particular case, Senator Sasser, which is the Section 201 of the trade law, as you know. This is the escape clause or safeguard provisions of the trade law.

This was a presidential decision, as you know. The conclusion by President Reagan in that particular case was that the granting of relief would not have met the objective of enhancing the international competitiveness of that industry.

In other words, the feeling was that the U.S. footwear industry had carved out a niche in an area that seemed to be a pretty solid niche, and that granting import relief would not have altered that situation very much, if at all, and all it really would have done would be to have increased consumer cost of shoes by several billion dollars.

The conclusion by the President was that it was not worth saddling American consumers with that multi-billion dollar bill of increased cost in shoes for a result that would have affected the international competitiveness of the footwear industry very, very little. People can debate the merits of that decision, but that was the rationale thereof.

Senator SASSER. That decision, I don't agree with, obviously. I am sure that you are aware of that.

Ambassador YEUTTER. Yes.

With respect to your basic question as to whether or not we ought to have a change in that law for whatever reason, I don't really believe that any significant change is necessary.

This President has given more relief under that particular provision of the law than did his predecessors. There have been six cases that have gone to President Reagan during his tenure, and he has granted relief in four. There were just two in which he did not grant relief, one of which was footwear. So I don't believe that it is fair to suggest that the law is not working.

As to proposals to change the law in order to make it easier to grant import relief, or more likely that import relief would be granted, we should always remember that there is a tradeoff in this area. There is no free lunch in granting import relief because we have an obligation under the GATT safeguard provisions to grant compensation to any nation whose trade is adversely affected by any relief measures that the United States provides.

In other words, had we granted import relief in that particular case, the countries that were adversely affected would have had a claim against the United States for the damage caused to them. This means that we would have helped the footwear industry, but we would have obviously placed an additional burden on some of our other industries in this country.

Senator SASSER. My problem with that decision was really a very personal one. I saw factories in my State closing as a result of imports coming in. I was told by the President of the Brown Shoe Company, at a meeting with hundreds of employees who were losing their jobs, that if they could get this relief they were seeking before the International Trade Commission, the factories would be reopened, and the workers would go back to work.

As it turns out, the workers are unemployed. They have been drawing their trade adjustment funds, and those are exhausted. They have been drawing their unemployment compensation, and now that is exhausted, and many of them are on welfare. All of that is being supported by taxpayer funds, and it creates a very, very serious problem in many areas of the country.

When we try to do something about some of these things, we are labeled as protectionist. I am not protectionist. I think that there are certain areas where we can free trade. I am in favor of free trade with Great Britain, and many of our allies in Western Europe. We can free trade with them.

We can't free trade with the Soviet Union, for example, they have an entirely different system. When we talk about free trading with the Soviets or the Eastern Bloc, that is impossible. I submit that you can't free trade with Japan, with Taiwan, or with Korea. They have a different view of trade, and they are coming at it from a different angle than our traditional trading partners in Western Europe.

I think, Mr. Chairman, what we need is a mixed approach here. Maybe we can side with some of the free traders who were talking about free trade, with our friends in Great Britain, West Germany, et cetera. I will be doggone if I can see that we are going to continue to free trade with some of these countries on the rim of Asia.

I think that they are simply going to drive us out of business, take all of our markets away from us. What they want to do is to get into this most lucrative consumer market, the U.S. market, and they are going to stay here.

Some of my free trading friends will say, well, Senator, if you impose any sort of restrictions, there is going to be reciprocity. You know, we have been imposing, over a period of almost a year-and-a-half now, restrictions on trade, or imposing on the marketplace, and we call that lowering the value of the American dollar.

It used to be when the value of the dollar was down, we would see the selling price of imported goods going up. But what we have seen, Mr. Chairman, and you know this as well as I do, over the last year-and-a-half, as the value of the dollar has come down, the inflation adjusted price of imported goods has not gone up. It has remained relatively stationary.

What this indicates to me is that foreign manufacturers, and particularly those from Japan, Korea, Taiwan, et cetera, want access to this great American consumer market so badly that they will cut their profits very low to get in here. I think when we are talking about some reciprocity, if we impose some sort of quotas, tariffs, or whatever we are talking about on this, I don't think that we will see that reciprocity, because I think that they still want this most lucrative consumer market in the world.

I just wanted to lay that out for the record, Mr. Ambassador. You don't need to respond to that, unless you wish to.

Ambassador YEUTTER. I would like to make a couple of quick responses. One would be that I believe we are now about to see a change in trade patterns as a result of those exchange rate movements. It has taken a long time for the very reasons that you outlined.

The firms of those countries do absorb the exchange rate movements as long as they possibly can, because they are great believers in maintaining and increasing market share. I happen to think that that is a good and sound marketing strategy, and it ought to be adopted by more American firms, too.

Senator SASSER. I agree with that.

Ambassador YEUTTER. I am convinced that we have finally reached the stage now in the movement of exchange rates where that is going to begin to show up in the numbers. It has taken a long, long time. It is not going to take us from $170 billion to zero by any means this year, but I believe that it will get us going in the right direction finally.

The only other point I would add is that the Asian countries are impressive, indeed, economically, I have spent a lot of time there, but they are not giants either. I am convinced, Senator Sasser, that the United States can beat anybody in international competition if we really want to, but not in all products.

Clearly, in some products which have a very high level of labor intensity we are going to have a difficult time competitively; but, in literally thousands of product centers, Senator Sasser, I think that we can beat the Japanese, the Koreans, and the Taiwanese, or anybody else in the world if we really set our minds to it. We are doing it already.

We shouldn't tie our hands behind our backs, obviously, and we shouldn't penalize ourselves with an inordinately high dollar as we did for a while. We shouldn't penalize ourselves with export controls that ought not to be in place, and a lot of other things. If we do the right kinds of things, I really think that we can be a very competitive nation.

Senator SASSER. Thank you, Mr. Ambassador.

Thank you very much, Mr. Chairman.

Senator HOLLINGS. I thank you very much, Senator Sasser.

SUBMITTED QUESTIONS

Mr. Ambassador, we appreciate your appearance, and Mr. Doyle's appearance here this afternoon. We have some additional questions that we will submit, for the record, from Senator Domenici, Senator Inouye, and others.

Ambassador YEUTTER. We will be happy to handle them, Mr. Chairman. Thank you.

Senator HOLLINGS. Thank you, sir.

[The following questions were not asked at the hearing, but were submitted to the Office for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

CUSTOMS ENFORCEMENT OF THE TEXTILE IMPORT PROGRAM

Question. Mr. Ambassador, while I know that you don't supervise the trade enforcement program, I'm sure you have more than a passing interest in how your agreements get carried out. How happy are you with the enforcement support you get from other agencies in the Executive Branch, such as Customs, Commerce, and so on? The reason I ask is that recently the GAO concluded that the physical examination by Customs of import shipments into the Port of New York, John F. Kennedy International Airport, and other ports of entry, was inadequate to assure that importers are complying with importation laws and regulations. I'd be puzzled if you weren't upset, but if you are upset, what are you doing to correct the situation?

Answer. We are, of course, very concerned about Customs ability to enforce the agreements we negotiate. A major reason that Customs has had difficulties in the enforcement of the textile import program has been the compelxity of the system. By the way, the textile legislation that you have introduced would create an even more complex and cumbersome system, thus compounding Customs problems.

Following the recommendations in Secretary Baker's February 1986 report on the textile import program, we are simplifying the structure of our quotas to make it easier for Customs to enforce, while at the same time providing adequate protection to domestic producers. For example, in recent negotiations with the Philippines we eliminated the separate quotas on children's wear and adult's wear within each apparel category. The previous agreement with the Philippines required hundreds of man hours for Customs to enforce since they had to determine if each apparel shipment contained garments for children or adults. Also, in conjunction with the implementation of the Harmonized Commodity Code, we have developed a new, simpler textile and apparel category system which should also ease the burden on Customs.

PUNTA DEL ESTE

Question. The published agenda for the GATT negotiations in Punta del Este contains a section entitled, "General Principles Governing Negotiations." I've read it and it says to me, loud and clear, that the United States isn't looking for reciprocity in our trade relations with the developing countries. Why did you agree to language that says, and I quote: "The developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs." If the LDCs don't have to make any concessions -- and if we are not going to do anything that might conceivably interfere with their "development, financial and trade needs" -- then why are we even going to Punta del Este, and why do you need those 72 additional personnel slots [in the Department of Commerce]?

Answer. You have quoted one sentence of the seven paragraph section entitled "General Principles Governing Negotiations" from the Ministerial Declaration. Taken together, the seven paragraphs present a balanced commitment by ministers to ensure that the negotiations result in mutual advantage and increased benefits to all participants.

It is true that the fifth of the seven paragraphs states that developed countries do not expect developing countries to make concessions which are inconsistent with their individual development, financial and trade needs. However, the following paragraph states the expectation of Ministers that the capacity of developing countries to make contributions or negotiate concessions "would improve with the progressive development of their economies and improvement in their trade situation..." The clear intention of the Ministers is that developed countries will be looking to the advanced developing countries (such as South Korea, Brazil and Singapore) for greater concessions than those they expect to be made by the least developed countries (such as Bangladesh, Zaire and Gabon). This is one of our major objectives in the Uruguay Round negotiations.

The language of these two paragraphs is drawn verbatim from the Decision of the GATT Contracting Parties on November 28, 1979 concerning Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries, known as one of the four "Framework Agreements" reached during the Tokyo Round. As with the other Tokyo Round results, the Framework Agreement was approved by Congress and incorporated into U.S. law as part of the Trade Agreements Act of 1979.

The resources requested by the Commerce Department will help the U.S. get the job done in Geneva.

MANUFACTURING IN THE NEW INFORMATION AGE

Question. ...if indeed we are now entering the information age, the lesson from history is not to allow the dismantling of our industrial base, but to accord our industries the opportunity to compete in the global economic contest. If we allow them to be decimated, what information are we going to process?

Answer. News of the demise of the U.S. manufacturing industry, to paraphrase Mark Twain, has been greatly exaggerated. In fact, the rise of the new information age will not eclipse manufacturing, but give it new life. The comparison with the U.S. evolution from an agrarian economy to an industrial one is an apt one. Agriculture did not disappear as a result of industrialization, but took on new life from it. As agriculture became capital intensive, incorporating mechanization techniques from industry, it made each farm worker so productive that three farmers today can do the work now that required fifty farmers at the turn of the century.

A similar process of the U.S. manufacturing industry adoption of information age techniques is creating a manufacturing revolution today. Computers are making design engineers more proficient, and computer-controlled machine tools, and robots are making U.S. workers more productive and their output precise. The result is enhanced manufacturing competitiveness vis-a-vis the developing countries in terms of labor costs and vis-a-vis advanced industrial nations in terms of zero defect quality output.

As part of our machine tool domestic program, in addition to the voluntary restraint agreements with Japan and Taiwan, the President has directed that industry efforts to improve U.S. manufacturing competitiveness by supported by $15 million in grants on a matching basis. The machine tool industry is setting up a Manufacturing Science Center to do research to improve manufacturing methods. This efforts is likely to be broadly beneficial to all

manufacturers because membership in the Center will include users of machine tools, e.g., auto manufacturers, as well as computer manufacturers.

THE ROLE OF THE DOLLAR IN TRADE DEFICIT

Question. For those of us who are not economists or so learned in the field of international finance, would you take a couple of minutes to educate us in why a falling dollar is such a boon to our country? It's always puzzled me that President Reagan, the epitome of strong national security and big military muscle, doesn't really like having a strong dollar. I understand over-valuation -- we all understand that -- but the dollar is lower now than it was in the 1970s when our trade picture was pretty good -- fantastically good compared to the mess we're in now. I've always thought a strong dollar was a national asset -- it enabled us to provide the security umbrella for our allies, it reflected the essential soundness of the economy, and it was fitting that a great power should have a strong currency. Set me straight, Mr. Ambassador. And would you comment also on the thought that perhaps the valuation of the dollar is having to take the rap for more than it is really guilty of?

Answer. Since 1973 the United States has had a floating exchange rate regime. That is to say that the exchange value of the dollar vis a vis other major countries is largely set by private market forces, with only occasional and limited interventions in currency markets by central banks to influence the dollar's value. The movement toward a floating exchange rate regime in the early 1970s reflected the increasing inability of governments to maintain fixed exchange values between currencies. The fact is that the potential for governments to intervene in foreign exchange markets is extremely small in comparison to the volume daily transactions by private parties. Most analysts agree that government exchange market intervention can move a currency above or below the private market valuation to only a limited degree and for a relatively short duration of time.

How the exchange markets are valuing the dollar depends largely on the supply of and demand for dollars at any given time in the market. In the first half of the 1980s the widening Federal budget deficit, low domestic savings and, after 1982, strong domestic investment attracted large amounts of foreign investment into the United States. To invest here, foreign residents had to purchase dollars in exchange markets. This strong demand for dollars sent the dollar's exchange value rising. This, in turn, lead to a rapid increase in the U.S. current account deficit as imports rose and exports stagnated. As the trade deficit rose Americans supplied more dollars into exchange markets to meet the increase demand of foreign residents who wanted to invest here. The dollar's "value" then is simply the market clearing price which equates supply of and demand for dollars. In the case of a country that is a large net borrower from overseas as the U.S. has been for the last several years, the dollar simply moves were it must so that our surplus on the capital account (net borrowing from abroad) is exactly matched by a deficit on the current account (broadest measure of the trade deficit).

The dollar has declined in the last two years signaling first the current leveling off of the dollar value of the trade deficit and capital inflows and reduced foreign currency value of both, and second a future decline in the dollar value of both. The depreciation of the dollar is clearly a necessary element in the movement toward reduced current account deficit. But, it is far from the only element. The dollar should not bear the blame for our large

trade deficit, as it is the cause of the deficit in only the most proximate sense. Underlying the movement of the dollar and development of large trade deficits have been U.S. saving rates driven abnormally low by outsized federal budget deficits. Achieving a sustained reduction in the trade deficit means not just a depreciation of the dollar, but, more fundamentally, reducing the federal budget deficit to achieve better balance between domestic saving and investment.

Because of the role of the dollar as an adjustment mechanism in our international payments situation, its "strength" or "weakness" should not be viewed as a primary indicator of the relative strength or weakness of our economy. It is much more appropriate to look at factors like growth in output, productivity, employment, R&D expenditures and the like as the basis for such international comparisons. Such factors provide a much more accurate picture of the performance of the U.S. relative to other economies than do movements in the dollar's value.

DOLLAR DEPRECIATION AND INFLATION

Question. OMB says that the greatest contributing factor to inflation this year will be the rising cost of imports caused by the falling value of the dollar. I remember during last year's debate on the textile bill, you and others from the Administration were up here saying our bill could add to consumer costs. Yet the strategy of currency devaluation which this Administration has been pursuing guarantees price increases, according even to OMB. Mr. Ambassador, have you met yourself coming around the corner?

Answer. The contradiction you highlight is more apparent than real. Though we seek to eliminate the trade deficit by expanding exports, inevitably achieving that goal will also mean dampening U.S. demand for imports. In the flexible exchange rate system this implies currency depreciation and a rise in import prices. This rise in import prices is a temporary, once and for all effect that does not permanently affect the rate of domestic price inflation.

Additional restrictions on textile and apparel imports would have further limited import supply of these items, raised the prices of those items to consumers and business users, and temporarily raised the inflation rate without in any way reducing the aggregate trade deficit. This is because U.S. import restrictions do not address the underlying causes of the trade deficit, but only shift the burden from the protected U.S. industries to other U.S. industries and their workers.

There is a world of difference between accepting a necessary price increase for all imports as part of a general balance-of-payments correction through dollar depreciation, and a congressionally legislated price increase for the products of a particular industry which contributes nothing to solving the trade deficit problem. The former is necessary, the second is not, and there is no contradiction between the two.

EUROPEAN TEXTILE & APPAREL TRADE BALANCE

Question. During the "Reagan Watch," America's textile-apparel trade deficit has grown five-fold -- from $4 billion when your team came to power to over $21 billion last year. During the same period, the European Community's deficit actually declined

from the same $4 billion starting point. How did the Europeans do that? Did they violate GATT? Violate the MFA? What policies have they followed that we have not? And if their policies are legal, why don't we exercise the rights we have?

Answer: The European Community did not violate the MFA or the GATT. The improvement in their textile and apparel trade deficit was, for the most part, unrelated to restrictions they placed on imports. The improvement resulted from slow economic growth in most European countries, which stifled the demand for imports, and to the success of their industries in expanding exports.

For example, in 1980 the U.S. had a surplus in textile and apparel trade with the European Community. By 1986 we ran a $2.9 billion deficit. Despite this deficit, U.S. exports to the European Community increased by more than 40 percent. Hopefully, more sectors of our textile industry will take advatange of the current currency relationships and the textile and apparel trade deficit will narrow.

THE IMPORTANCE OF EXPORTS TO U.S. TRADE

Question. The Administration is constantly extolling American industry to be more export-conscious, and I for one would always emphasize the need to penetrate new markets and to learn the ways of international business. But I am far from convinced that exports are as big a part of the problem as imports when it comes to America's staggering $170 billion trade deficit. Since 1982, exports -- even with the rising dollar we had the first couple of years -- remained remarkably stable. But imports jumped from $250 billion to $380 billion. It would take a 75% increase in exports to counter that -- highly unlikely in the face of overseas governmental protectionism. Are you perhaps singling out the wrong culprit here, and therefore coming up with wrong solutions?

Answer. You are correct in noting that since 1982, in dollar terms U.S. exports have remained stagnant while U.S. imports have risen dramatically.

However, those numbers do not really tell the relevant story. The important figure is the ratio of imports (or exports) to gross national product (GNP). In those terms, U.S. imports have remained relatively constant since 1980. In 1986, the ratio of imports to GNP was 9.2 percent, while in 1980 it was even higher- 9.4 percent of GNP.

The real problem is that as our economy, and the world economy, has grown since 1980, our exports have not shared in that growth. The ratio of exports to GNP in 1980 was 7.9 percent. In 1986, it fell to 5.2 percent. If exports had maintained a constant share, our trade deficit last year would have been $100 billion smaller than it actually was.

FOREIGN MILITARY SALES

Question. A February 1, 1987 story in the New York Times stated that the U.S. is now suffering a trade deficit in arms sales. According to the article, in Fiscal Year 1986, foreign military sales by American companies totaled $7.2 billion, while sales by foreigners to our government totaled $9 billion.

Another article in the Wall Street Journal on february 10, 1987 notes that "as defense budgets shrink in real terms and more gaps in U.S. industrial capacity appear," the Pentagon has become increasingly dependent on arms from our NATO allies. It is incredible to me that the U.S. could be suffering a deficit in defense items. Is anyone in the U.S. government concerned about this?

Answer. To the best of my knowledge the U.S. still has a trade surplus in arms, although there have been various factors at work which have decreased the amount of our arms exports. Over the last five years, the arms exports to imports ratio has averaged 2.8 to 1 according to Defense Department data. However, the Defense Department does make other foreign expenditures, for example, to buy large quantities of foreign petroleum products, to pay foreign base rental fees, and for the subsistance of foreign-based U.S. military personnel. The Administration, both defense and civilian agencies, are deeply concerned about the health of the U.S. industrial base and the increased dependence of our military on foreign suppliers of critical components and parts. The President has enunciated a program to assure the competitive preeminence of American industry and agriculture through a multipronged program including specific proposals aimed at promoting the development of science and technology and protechting intellectual property. These programs, if they are able to be fully implemented, would do much to address the concerns raised by your question.

PRESIDENT REAGAN'S TRADE POLICY

Question. Title V of S. 539, the President's competitiveness bill, contains changes in our trade laws. Basically, Title V gives the President negotiating authority for the new GATT round with a few other changes. It is clear from the bill that the President's long-term and short-term trade policy will be participation in the new round is 4-10 years from now, what so you suggest U.S. industries and workers do in the meantime?

Answer. The President's trade policy is an "all fronts" policy, including but not limited to the Uruguay Round. It expeditiously deals with any and all trade problems bilaterally, plurilaterally and multilaterally in Geneva. These efforts are in fact mutually reinforcing and do not depend on the outcome of the Uruguay Round which the Ministerial Declaration stipulate will end within four years. As for dealing with the adverse effects of imports, the President has included several new proposals in his comprehensive bill to improve the competitiveness of U.S. industries.

MAN-MADE FIBER LUGGAGE

Question. Mr. Ambassador, I would like to run through with you the history of just one of the quota actions taken last year and seek your comments on the outcome. The issue concerns the establishment of a quota for man-made fiber luggage on China.

The initial request for a quota on this category was made on September 1, 1985. The "call level" under the terms of the Bilateral Agreement was 12 million pounds. If the request had been delivered in Beijing just one day earlier --on the last day

of August -- the call level would have been established at 10.8 million pounds. The difference of 1.2 million pounds was equivalent to about 4% of the small remaining U.S. production of man-made fiber luggage at that time.

At the time of the call, total U.S. production of man-made fiber luggage amounted to approximately 30 million pounds. Under the President's Executive Order issued in December 1983, the trigger point for a call -- 1% of U.S. production -- would have been 300,000 pounds. Since this category has one of the highest import penetration ratios it seems clear that if the President's criteria is relevant anywhere it should have been applied in this case. Nonetheless, the initial request for a call with China was delayed until the call level amounted to 40 times the President's trigger level.

Negotiations with China then ensued for more than a year. During this time, you received strong advice from the industry and Congress on the subject noting the importance of this negotiation and requesting that no further increase be granted to China. In the end, this was totally ignored by the USTR negotiators. China was granted a final quota nearly double the original call level -- 23.1 million pounds. Since U.S. production was estimated at 30 million pounds at the time this action was taken, in effect this one action amounted to nearly a total give-away of the remaining man-made fiber luggage industry.

Question. Mr. Ambassador, how could something like this happen in the face of all the commitments the Administration has made on controlling textile product imports?

Answer. First you should be aware that man-made fiber luggage imports were not subject to restraint under the textile import program until 1984. The restraints we have instituted on this product have been under constant international criticism. When we agreed to negotiate quotas on man-made fiber luggage, we understood that the fabric component was 50 percent or more of most pieces of soft-sided luggage. However, we now have learned that only 2 percent of many pieces of luggage may be fabric. Neither the European Community nor Canada consider soft-sided luggage to be a textile product. In fact, to our knowledge, the U.S. is the only importing country which has established quotas on such products.

The production figure of 30,000,000 pounds which you cited was extrapolated based on the belief stated above that on average 50 percent of a piece of luggage consists of fabric. As we have learned, this is probably not the case. Thus, domestic production of luggage is greatly underestimated. If, for example, the average piece of luggage contains 10 percent fabric, than domestic production would be 150,000,000 pounds, not 30,000,000 pounds.

You should also be aware that many large domestic producers of luggage have in fact protested the quotas we have established. They claim that they need to import a certain percentage of their sales to make soft-sided luggage affordable to U.S. consumers. As you can imagine, we were placed in an awkward position with many U.S. producers opposing the quotas we were negotiating.

Between 1984, which is the first year we collected import statistics for man-made fiber luggage, and 1986 imports declined about 5 percent. In January 1987, imports of man-made fiber luggage decreased 30 percent from January of 1986. Considering this, and all the facts cited above, I think you will agree that we negotiated the best possible solution we could with China.

The fact our request for consultations with China was made in September 1985 rather than in August, did not adversely effect our negotiating position with China.

ENFORCEMENT OF TRADE LAWS

Questions. Ambassador Yeutter, on page 1 of your prepared statement you say that your budget request includes resources to: actively enforce the trade laws of the United States. While the balance of your statement covers many things, I find very little further discussion of the enforcement aspects of your office.

1. What has your office done to enforce the bilateral agreements?

2. How much of your resources are devoted to enforcement?

Answers. (1) USTR is concerned with not only achieving satisfactory agreements resolving trade problems, but also monitoring and enforcing those agreements, to make sure we get what we bargained for. We do this routinely, using all the resources and sources of information available to us, including U.S. industry (in particular our industry sector advisory committees and the Advisory Committee for Trade Negotiations), U.S. embassies and missions abroad and the U.S. & Foreign Commercial Service, the U.S. and foreign press, reports issued by various entities (such as the GAO), and Congressional hearings.

When we detect a problem concerning the implementation of an agreement, we latch on like bulldogs and don't let go until we get results. The way we do this varies from case to case. For example, some early implementation problems developed under the agreements we negotiated last summer with Korea on access to its $5 billion insurance market and its protection of intellectual property rights. By closely working with the Koreans informally, we were able to get the results we wanted. Likewise we encountered start-up difficulties under the agreement we concluded last year with Taiwan improving significantly our access to its beer, wine and tobacco markets. Simply by insisting on regular follow-up reports from the Taiwan authorities, we maintained appropriate pressure to ensure enforcement of the agreement.

In other cases, we may feel compelled to pursue more formal action. For example, we have instituted many dispute settlement actions under the GATT to enforce our rights under trade agreements, such as challenging Japanese agricultural import quotas, Canadian domestic content requirements by its Foreign Investment Review Agency, and Indian import restrictions on almonds.

In other cases, we use section 301 of the Trade Act of 1974. For example, when the President approved our semiconductor arrangement with Japan last summer, he expressly determined that any future failure by the Government of Japan to meet the commitments and objectives of that agreement would be actionable under section 301. Commerce now is determining whether Japan has implemented this arrangement. If not, we will take appropriate action in response.

The point is, we accord a very high priority to enforcing the agreements we negotiate, lest we lose through a shortfall in implementation the benefits for which we bargained.

(2) I can't tell you specifically how many resources we devote to enforcement. Obviously my General Counsel and his staff spend significant efforts enforcing U.S. rights in the GATT

and under section 301 (as well as, increasingly, defending us against GATT challenges to our practices). My General Counsel and various Assistant U.S. Trade Representatives and their staffs also are closely involved in enforcing various agreements. For example, our Japan and industry offices coordinate with Commerce with respect to the Japan semiconductor agreement; our textile office with Commerce and Customs with respect to all textile agreements; our agriculture office with USDA with respect to various ag agreements; etc. In fact, most of USTR is involved in this effort one way or another.

JAPAN

Question. What kind of agreement have we reached on lawyers? How come we can protect lawyers and not textiles?

Answer. The United States Government and the Government of Japan announced an agreement on February 27, 1987 that resolves a major trade dispute over access by foreign lawyers to the legal services market in Japan. Under the agreement, Japan will implement its May 1986 law concerning foreign lawyers in a way that will permit a significant opening of the Japanese legal services market. Among the major items covered under the agreement are the scope of practice to be permitted U.S. lawyers in Japan, qualification and registration procedures, licensing requirements including the method of counting prior experience, and the staffing of foreign law offices. In previous consultations, the United States and Japan focused on the terms of the Japanese legislation concerning reciprocity, licensing requirements, procedures for admission and discipline of foreign attorneys, use of the name of the home country law firm, and permissable forms of association between Japanese and foreign attorneys.

We believe that, taken together, the May 1986 legislation and the implementing ordinances agreed to in February 1987 will ensure smooth and equitable operation of the foreign lawyers regime in Japan. We hope, moreover, that the admission of foreign lawyers to Japan will be a catalyst for further trade liberalization.

The lawyers agreement was negotiated to open an important new market to American lawyers, not to "protect" lawyers from foreign competition. We began negotiations with the Japanese on their legal services market based solely on the merits of the issue. Our policy regarding textiles therefore has no bearing on these negotiations.

Question. The U.S. trade deficit with Japan is in the vicinity of $50 billion. In recent years, the U.S. has taken many initiatives to attempt to remove Japanese nontariff measures that restrict access of U.S. exports to that market. Yet your budget request provides for only 5 professional staff to lead U.S. trade policy for both Japan and China.

(A) What other resources are available to carry out the important trade policy initiatives.

(B) How do your resources compare to those employed by Japan's Ministry of International Trade and Industry in carrying out trade policy towards the United States?

(C) Do you need more resources in this area, and if so, what kind?

Answer. The U.S. trade deficit with Japan rose from $50 billion in 1985 to $59 billion in 1986.

(A) The USTR works closely with other trade agencies, especially Commerce, Treasury, State, and Agriculture in carrying out trade policy initiatives. These agencies sometimes cooperate with USTR to provide backup support, as does the U.S. Embassy in Tokyo. On Japan and China related issues that require specialized expertise on industries (such as agriculture or high technology) or on trade law, the Japan/China office draws on the resources of other appropriate offices in USTR.

(B) The Ministry of International Trade and Industry (MITI) employs approximately 18 people in its office that deals with U.S.-Japan trade, including approximately five people that are senior level civil servants, seven who are middle level, and six who are lower level bureaucrafts. Most of the senior officials have studied and/or worked in the United States, are fluent in English and knowledgeable about the U.S. economic, political and legal systems.

The MITI office that handles U.S.-Japan trade has access to extensive support from other offices in MITI and affiliated agencies (e.g., the Science and Technology Agency, Small and Medium Enterprise Agency, JETRO, etc.) and institutes (e.g. Government Industrial Research Institute) with specialized expertise and information. MITI also has a large number of advisory councils which provide it with information and recommendations on industrial structure and policy.

MITI maintains a considerable budget for public relations, information gathering, data retrieval and storage, lobbying, legal and social representation, and training of employees. A large part of this budget is focused on the United States, which is Japan's largest overseas market.

(C) At present the Japan/China office has two professionals on USTR payroll; the other three staff members are on nonreimbursable detail from other agencies. We believe we have sufficient resources when one considers the substantial interagency suppport and that provided by other USTR staff.

Question. Successful U.S. efforts to remove Japanese nontariff measures generally have opened that market to competing countries as well. (A) Have you made any assessment of the extent of Japanese imports that have resulted from initiatives and the U.S. share of imports? (B) What are your views on the proposal that the U.S. should focus more on negotiating for specific U.S. exports? For example, any U.S. effort to remove Japanese import restraints on rice might primarily benefit Thailand. Some other approach might provide for specific exports of U.S. rice to Japan.

Answer. Yes, we regularly review the progress U.S. exporters are making in penetrating the Japanese market, particularly in areas where we have negotiated market access commitments, such as aluminum, cigarettes, semiconductors, telecommunications, beef, citrus, and forest products. This review takes into account both the ease with which U.S. firms are able to enter and sell in the Japanese market and actual U.S. sales. In some cases, dollar gains for U.S. exporters have been substantial. For example, the beef and citrus agreement reached in April 1984 will result in an additional $400 million in U.S. exports by 1988. As a result of MOSS negotiations in 1985, U.S. exports of forest products (excluding logs) rose from $643 million in 1985, to $810 million in 1986. When Japan fully implements its commitments in the tobacco area, U.S. exporters of cigarettes expect to garner a

substantial share of Japan's $20 billion annual retail market. As you know, we are not satisfied with Japan's efforts to increase purchases of semiconductors from the United States, and have set a mid-April deadline for achieving progress.

The United States has been aggressively pursuing unfettered access by U.S. business to the Japanese market in areas where we are highly competitive. We have made it clear that we can only consider Japanese market-opening steps meaningful if they result in increased U.S. sales. The rice produced in California is very high quality and a type that would sell well in Japan. Japan currently bans all rice imports in violation of its international obligations under the GATT. Japan maintains a number of protectionist agricultural policies that are contrary to the GATT as well as high tariffs that hinder or prohibit our sales. We are working across the board to gain access for our competitive agricultural and value added exports. We think Japanese consumers should have a choice of reasonably priced foods.

SEMICONDUCTORS

Question. What efforts are underway to monitor Japanese compliance with the Semiconductor Agreement? What criteria have been set to judge the extent of Japanese compliance? Are Commerce Department estimates of fair market values reliable or should the U.S. Government seek improvements in the cost data provided by Japanese producers? What plans exist for retaliation or other responses in the event of noncompliance?

Answer. The Administration's monitoring of the U.S.-Japan Semiconductor Agreement began in September 1986, the month the agreement was signed. The Department of Commerce established a group within its organization specifically to monitor the prevention of dumping provisions of the Agreement. Both USTR and the Department of Commerce, along with the U.S. Embassy in Tokyo, are following closely actions taken by the Government of Japan, and Japanese and U.S. industry to increase U.S. semiconductor sales in Japan. The private sector is providing information to assist us in this effort. Consultations with the Japanese Government to address problems with their implementation of the agreement in October, November, December, January.

We have every reason to believe the Department of Commerce calculations of the Japanese companies' fully allocated costs and fair market values are reliable. The Commerce Department has on several occasions directly verified the Japanese company cost data submissions.

In January, the Administration informed the Government of Japan that we expect Japanese dumping in third country markets to be substantially eliminated by February 28. We also informed the Japanese Government that we expected positive trends to develop on semiconductor sales in Japan by U.S. firms by the end of March. The Japanese were told that if we did not see positive compliance on both issues, we reserved the right to take action against them. We are now analyzing the situation in third country markets; this information will be completed shortly. The Administration has developed contingency plans in the event of non-compliance. Once the analysis on the status of third country dumping is completed, a decision will be made on the appropriate response.

Question. The industry now wants $1 billion from the federal government to improve their manufacturing ability. What additional measures, if any do you think should be taken to assist the industry?

Answer. This is a very timely question, but one which the Administration is still reviewing. Obviously, the Government's responsibilities extend to maintaining a macroeconomic environment that is conducive to economic success. This general premise applies to semiconductors as well as other industrial, agricultural and service sectors. We believe the President's competitiveness legislative package is a major step forward to promote American competitiveness. Beyond macroeconomics, though, some believe the Government should increase its support of research and development and manufacturing capabilities relevant to semiconductors and related microelectronics technology. The recent report from the Defense Science Board Task Force on Semiconductor Dependency makes several recommends, including increased DoD support for such work, including the establishment of a "manufacturing infrastructure."

We are reviewing the recommendations of the Task Force as a possible major element in the process necessary to regain competitiveness in certain segments of the semiconductor industry. However, for the U.S. industry to maintain an economically viable scale of operations, it must have both a healthy domestic base and greatly increased access to foreign markets.

Besides the U.S.- Japan Semiconductor Agreement, other Administration initiatives to improve the competitiveness of the U.S. semiconductor industry include: (1) the elimination of barriers in foreign markets to exports of U.S. semiconductors and the elimination of unfair trade practices; (2) the implementation of a new 11 point program by the Department of Commerce to streamline the export licensing process, enhancing U.S. competitiveness consistent with national security requirements; (3) the removal of outdated antitrust provisions which unnecessarily impede the international competitiveness of American business; and (4) the indefinite extension of the authority under the Semiconductor Chip Protection Act (SCPA) which allows the Secretary of Commerce to issue orders making SCPA protection available to nationals of countries that extend similar protection to U.S. nationals. Other possible initiatives are currently under study.

JAPAN

Question. What efforts are underway to monitor Japanese implementation of agreements stemming from the market-oriented, sector-selective (MOSS) negotiations?

Answer. Progress made in each MOSS sector is reviewed with Japan at the Undersecretary level every six months. Technical level talks have been proceeding as necessary, and have resulted in further progress in the telecommunications, forest products, and medical equipment/pharmaceuticals area. In addition, the Commerce Department has developed a data base for monitoring U.S. exports to Japan in all five MOSS sectors. Data for 1986 should be available shortly. It is also developing export promotion programs for each MOSS sector. Its Foreign Commercial Service works to resolve U.S. difficulties in these areas on a day-to-day basis.

CHIEF TEXTILE NEGOTIATOR

Question. The Justifications state that the Chief Textile Negotiator, "Led the Administration's successful opposition to Congress' attempts to impose unilateral restrictions on textile and apparel imports." How much time did the Chief Textile Negotiator spend in that endeavor?

Answer. During 1986, the staff of the Chief Textile Negotiator dedicated about 200 man-hours to various efforts which resulted from the introduction of textile legislation in Congress.

Question. How much time did the entire office of the USTR spend in the endeavor?

Answer. It is difficult to give the precise amount of time we spent on this effort. Ambassadors Smith and Woods, plus our economists and our Congressional Affairs office, in addition the office of the Chief Textile Negotiator and I, dedicated considerable resources in providing background material on the textile import program, and explaining the Administration's position.

Question. Mr. Ambassador, I note that in 1980 we had 985 specific textile and apparel quotas with 22 countries. In 1986 we had 1,362 quotas with 38 countries. Yet in that time frame imports have grown from 4.9 billion yards to 12.7 billion yards. It seems to me that every time you have added a quota you have added imports. Can you explain this phenomenon to me?

Answer. We establish quotas when increasing imports threaten to damage domestic textile and apparel producers. Thus, it is not surprising that there would be a correlation between import growth and the number of quotas we have negotiated.

A considerable quantity of the imports during this time were yarns and fabrics, which were used by our domestic industry for further processing. Thus, increased imports do not always harm our domestic producers. The domestic textile industry was relatively prosperous in 1986. This indicates that the textile import program has worked, and that the industry has benefitted from the quotas we have set.

Question. How many people in your office negotiate textile agreements? How many were there in 1980? How can you expect the same three people to conduct 69 negotiations in 1986 that conducted 18 in 1980.

Answer. In 1980 we had only two negotiators in the office of the Chief Textile Negotiator. In 1986, as a result of the increased work load, the staff was increased to four negotiators. As we expect that the demands in the area of textiles will not be as great in 1987, we have reduced the Chief Textile Negotiator's staff to three.

Question. Mr. Ambassador, are your negotiators confident when they enter talks that the data on which they rely are reliable?

Answer. For the most part we are confident that the data is reliable. However, there have been problems which have caused us difficulty in negotiations. I believe that the delay in the public release date for monthly import statistics will improve the data. The Commerce Department is also working to improve other problems. With less demand on the agencies involved in the textile import program, we hope that the problems we experienced over the last two years will be greatly reduced.

DISCLOSURE OF SECRETS

Questions. At last year's hearing, Senator Rudman, on my behalf, asked you several questions with regard to the disclosure of textile negotiating secrets. As you know, the Department of Justice has decided not to prosecute Walter C. Lenahan when GAO investigations found he had violated the law.

1. Do you think that Justice made the right decision in this matter?

2. Do we need to strengthen the laws against divulging such secrets?

Answers. (1) USTR has not reviewed the facts underlying the Justice Department's decision not to prosecute Walter C. Lenahan. This was an exercise squarely within Justice's competence. It would not be appropriate for USTR to second guess the propriety or wisdom of that decision.

(2) No, I do not believe we need to strengthen the laws against divulging negotiating secrets. I think the Lenahan, Michael K. Deaver and other recent, highly visible investigations have reminded everyone of the need by current and former USG employees privy to negotiating information to not only obey all applicable laws and regulations, but to avoid even the possible appearance of impropriety. The mere possibility of a Lenahan or Deaver-type investigation is likely to be sufficient to deter potential wrongdoing, almost regardless of the outcome of such an investigation.

CIGARETTE EXPORTS

Question. You say that Japan has opened its cigarette market to U.S. exporters. Is that the same kind of the so-called "victory" we achieved in South Korea? Acording to the Financial Times, South Korea authorized set price of foreign cigarettes at nearly triple the price of their own good cigarettes. As a result only 25% of the imported cigarettes have been sold. What is the difference between our cigarette deal in Japan and the situation in Korea?

Answer. Under the section 301 agreement reached between the United States and Japan on cigarettes, Japan will suspend its 26 percent tariff on imported cigarettes. Eliminating the tariff should allow U.S. producers to lower their prices to a level comparable with those for Japanese premium brands and capture a sizeable portion of the Japanese market ($6 billion annually).

The situation in Korea bears some notable differences. First, to date, we have not negotiated with the Korean government on any detailed, substantive resolution of all cigarette issues. Second, the liberalization measures, effective last September, were unilateral decisions by the Korean government and are far from satisfactory. A reduction of the 100% tariff on cigarette imports, a transparent pricing system to reduce the price differential between domestic brands and imports and access to all retail outlets are just a few issues which are on our agenda. I assure you that the Administration is taking an active stance with Korea on this issue and we will not drop the issue until we have fair treatment in that market.

INSURANCE

Question. You also mention that South Korea had agreed to eliminate prohibitions against underwriting by foreign insurance firms. You put that in the plural, but according to the Wall Street Journal, only one American firm has been admitted in the Korean market. Worse yet, the firm that struggled for 15 years to enter the Korean life insurance market was passed over in favor of another American company.

Are we allowing the Koreans to punish one of our firms, and if so, won't this discourage other U.S. firms from trying to open up foreign markets?

Answer. The first firm to submit its application was the first firm to have it approved. Furthermore, senior Korean government officials assured me that experienced and qualified insurance companies, such as the one to which you refer, will be allowed to underwrite life insurance by mid-year. Approval of the license by that date will be well within the normal approval period in developed countries. As for your concern about possible negative effects on other U.S. firms interested in entering the Korean life insurance market, I am glad to say that a number of U.S. firms already have expressed intentions or are in the process of applying for a life license in Korea. We are monitoring all aspects of insurance regulation in Korea to prevent any discrimination or retribution.

NATIONAL TRADE ESTIMATES

Question. The Annual Report on National Trade Estimates identifies "actions taken or to be taken" in response to identified trade barriers. Section 301 petitioners have suggested that USTR should systematically monitor the impact of any such trade action or agreement.

What additional resources would USTR need in terms of staff requirements, to regularly monitor the impact of these actions and report to Congress in the National Estimates Report?

Answer. USTR does not need any additional resources to monitor agreements or other actions taken under section 301 of the Trade Act of 1974, and to report to the Congress. In fact, the Administration's competitiveness bill (H.R. 1151/S.539) proposes to amend section 306 of that act to require us to report semiannually to the Congress on the actual commercial effects of actions taken under section 301. We believe that the Congress and the public should have more regular information about the implementation of our section 301 program, so as to better assess whether we have succeeded in "making the cash registers ring" with increased sales of U.S. exports of goods and services, or in achieving better protection of intellectual property rights or conditions for U.S. investment.

This does not mean that the task is easy, or will be accomplished solely with USTR resources. For example, the Department of Commerce is principally responsible for monitoring implementation of the dumping aspects of the recent U.S.-Japan Arrangement on Trade in Semiconductors. We will seek continue to the cooperation and assistance of other agencies regarding monitoring and reporting in appropriate cases.

CONSULTATION WITH CONGRESS

Question. Mr. Yeutter, on page 3 of the justifications, it is stated that, "throughout the life of the agency, there has been close consultation between the USTR and the Congress.

1. With which Members of Congress did you consult in 1986?

2. How many sponsors of the "Textile and Apparel Trade Enforcement Act" did you consult with?

Answer. The Trade Act of 1974 specifically directs USTR consultation with the Congressional Trade advisers appointed by the Speaker of the House and the President Pro Tempore of the Senate. I and other senior officials at USTR have complied with both the letter and the spirit of the law, meeting frequently in both public and private sessions with Republican and Democratic Members of our Oversight Committees. Beyond those statutory requirements, we communicated on numerous occasions in 1986, either by letter or in person with every Member of the Congress including the sponsors of the Textile and Apparel Trade Enforcement Act.

CARIBBEAN BASIN INITIATIVE

Question. Is it the purpose of the Caribbean Basin Initiative to decrease jobs in the United States?

Answer. No. The Caribbean Basin Initiative (CBI) was created by the Congress and the Administration together for the purpose of helping both the United States and the Caribbean Basin. The CBI and its authorizing legislation is a prime example of the U.S. Government's commitment to the use of trade and private investment as the most effective means of promoting economic development. It also reflects our commitment to the economic well-being of our neighbors in the Caribbean and Central America. Our motives are not entirely altruistic, as you certainly know. The United States recognizes that a prosperous Caribbean Basin not only improves the prospects for stability and democracy in the region, but also offers increased market opportunities for U.S. business. With increased market opportunities come increased jobs.

Question. Do you think it was appropriate for the Agency for International Development to give Coopers and Lybrand $6,700,000 to advise and assist U.S. textile and electronics firms to move their manufacturing operations from the United States to the Caribbean?

Answer. AID's project development assistance program for the Eastern Caribbean which utilized Coopers and Lybrand as a prime contractor was a continuation of efforts to promote economic stability in and increased trade with the region. The program assisted interested U.S. investors through the complicated investment registration and licensing procedures in the small Caribbean countries. Major portions of the funding were directed at assisting the small Caribbean countries in reforming their investment regimes. The project was not directed at specific industries, but rather aimed to help those companies which were interested in exploring overseas opportunities. Ultimately, the decision to invest rests with the companies themselves. The improved economic conditions resulting from the trade as well as the investment components of the CBI as passed by Congress place

these countries in a better position to help themselves become economically and politically stable creating an environment conducive to increased marketing opportunities for United States interests.

Question. Do you think it was appropriate for the Under Secretary of Commerce for Tourism -- whose agency the Reagan Administration wants to curtail -- to offer to spend her limited funds on developing plans for Caribbean countries?

Answer. Tourism is one of the industries which holds some of the greatest economic development potential for the region. USTTA does not and does not intend to promote tourism outside the United States. What Commerce provided was a study aimed at helping the Caribbean Basin countries help themselves in a sector which holds major promise for economic growth. This coincides with the goals of the CBI. Strong economies in the Caribbean Basin can only offer prospects for increased U.S. business opportunities.

Any efforts undertaken to develop tourism in the Caribbean also helps to promote tourism in Florida, the Virgin Islands and Puerto Rico. Many tourists to the Caribbean also pass through Florida and Puerto Rico. Both Puerto Rico and Florida are important hubs for many of the U.S. airlines and serve as important ports for cruise ships. Many tourists also include the U.S. Virgin Islands in their travel to the Caribbean countries because of the Virgin Islands' proximity to those countries. Growth in tourism means growth in business opportunities for the many U.S. commercial interests connected with the Caribbean, not only in the tourism sector per se, but also in those sectors upon which the tourism industry must depend to be successful. Most tourism dollars spent in the Caribbean in fact return to the United States in the form of purchases of such things as food, furniture and other items required by the tourism industry.

STAFFING OF USTR

(Mr. Ambassador, you describe your request as modest and that you seek only 5 new positions for the Uruguay round of GATT negotiations. If the request is approved, your office would have 146 positions for 1988.)

Question. However, am I correct that there are some 33 contract personnel working in support of USTR, as well as 9 reimbursable details from other agencies assigned to USTR?

Answer. Yes. Historically, USTR has had about this level of non-ceiling support. The additional positions represent a modest but needed enhancement to allow us to better manage the total government effort in support of the Uruguay Round.

Question. Please provide for the record a listing of them by name, annual cost, agency, and their USTR duties.

Answer. We provided that to staff just before the recent hearings. Another copy is attached.

Question. Why is it necessary for USTR to have contract and reimbursable positions?

Answer. They add needed expertise to the agency for certain time periods. Overseas, it is the custom to hire contract staff to

provide long-term support. We requested an additional five positions without funds to convert some of these positions, in order to attain a better balance between our in-house staff and the contract and reimbursable support. We expect to review this area periodically and from time to time make recommendations to adjust the staffing.

Question. Is it correct that the International Trade Administration in Commerce is requesting 72 additional positions amounting to $4,081,000 to support the Uruguay Round?

Answer. Yes. We support that request.

Question. Just how many people will we have working for the USTR in 1988?

Answer. We would expect about 186 paid staff-- including permanent staff, reimbursable details and contract support.

CEILING VS NON-CEILING POSITIONS

Question. What is the difference between the "ceiling" and "non-ceiling" positions?

Answer. "Ceiling" positions are those positions allocated within the total number of positions authorized-- presently 136; "non-ceiling" positions are those positions filled by details or contract staff.

Question. Why are the USTR's "Chief of Staff" and the "Assistant Trade Negotiator" non-ceiling positions?

Answer. The "Chief of Staff" position is non-ceiling because the incumbent is on detail to USTR from the Agriculture Department on a non-reimbursable basis; were it to become vacant, we would probably allocate a ceiling position to fill it. The Assistant Trade Negotiator position(in the Textiles unit) is non-ceiling because the incumbent is on detail to us from the State Department.

CONVERSION OF REIMBURSABLE POSITIONS

(USTR plans to convert 5 positions from contract and reimbursable arrangements to in-house staff)

Question. Which positions do you have in mind and what are their present costs compared to what it will cost to pay them as direct employees?

Answer. We have not yet made final decisions in all cases. Our cost objective is to have aggregate in-house costs for the five positions not exceed the aggregate out-house costs. Listed below is our current thinking and related cost data:

UNIT/POSITION	CONTRACT/REIMBURSABLE COST	IN-HOUSE COST
Industry Services/ Policy analyst	$51,000	$57,568
Computer operations/ Analyst	$74,108	$43,382
Computer operations/ Facilities manager	$54,037	$40.971
Geneva/ International economist	$97,607	$87,000
Trade Policy&Analysis/ Economist	$46,000	$49,950
Total cost	$322,752	$278,871

Question. Do you expect to hire the persons now serving on a contractual or reimbursable basis?

Answer. In some cases, yes. In some cases, no.

"NO-YEAR" FUNDING AUTHORIZATION

(The 1987 Supplemental and the 1988 estimates are requested on a no-year basis, that is, the funds will remain available until expended.)

Question. Do you have authorization for no-year funding?

Answer. Not at present. We have submitted proposed authorizing legislation to the Congress for USTR which includes no-year language.

Question. Is the no-year request for the supplemental an indication that the $245,000 might be overstated?

Answer. No. Most of that request($168,000) is for FERS costs. Actual costs for FERS will depend to a considerable extent on what USTR staff elect to convert, when, and to what extent they take advantage of matching opportunities for their FERS contributions. Given this reality, no-year funding is prudent.

As far as pay is concerned, we only asked for one-half the actual FY 1987 cost. We are not in a position to absorb it. We have already experienced a 10 percent deterioration in the dollar versus the Swiss Franc since the start of the fiscal year. At the present level, we have a $103,000 problem this fiscal year. We also have to absorb the recently enacted Presidential Pay Commission increases. For FY 1987, that presents a $43,000 problem. In FY 1988, $73,000.

Question. If the no-year designation is granted, what would be an appropriate limit on the accumulation of carryover funds?

Answer. $1 million.

QUESTIONS SUBMITTED BY SENATOR INOUYE

PACIFIC RIM

Question (Senator Inouye). Of great interest to western states like Hawaii is bilateral trade negotiations with Pacific Rim Nations. What is the status of our negotiations with Pacific Rim countries in the area of textiles, agriculture, and copyright protection? What is your prognosis for concluding new agreements in these areas under existing law, and what can you recommend to the Congress as it undertakes a revision of our nation's trade laws.

Answer. The Multifiber Arrangement (MFA) under the GATT and our bilateral textile agreements with Hong Kong, Korea and Taiwan in particular provide the basis for textile and apparel trade with Pacific Rim countries for the next few years. With regard to copyright protection, Korea and Taiwan have recently passed new copyright laws, and both countries recently revised their patent laws to provide product patent protection for chemicals and pharmaceuticlas. Singapore is in its last phase of implementing an exemplary copyright law and Malaysia is expected to pass copyright revisions this spring. With Indonesia, we currently are pushing for effective copyright protection with the aim of passing new copyright legislation by year end. We also are pressing Indonesia for a patent law; currently they have none. Thailand is strengthening copyright protection for foreign works but needs to improve significantly its patent protection. Agricultural liberalization, particularly the elimination of high tariffs, is an area where the Administration is exerting substantial efforts this year. Specifically, we are aiming for dramatic reductions of Taiwan's high tariffs on agricultural items, and we are pursuing agricultural liberalization as the prime focus of our market access campaign with Korea this year.

With regard to our trade laws, I would like to point out that this Administration has been the most aggressive in employing and enforcing the programs permitted under the existing trade laws to open markets for U.S. industry. To date, these laws have proved to be invaluable in providing the necessary tools for an effective trade policy; to the extent that I may recommend some limited changes, they are those measures in the Administration's current Trade Bill (e.g., a 24-month deadline in dispute settlement cases under section 301, expanded options for relief under section 201, Uruguay Round negotiating authority).

Questions Submitted by Senator Lautenberg

EUROPEAN COMMUNITY SUBSIDIES ON PASTA

Question. What is the status of our negotiations with the European Community?

Answer: The U.S. and EC have met three times since December 1986 to discuss the pasta dispute. Both sides are firmly committed to working together to seek a mutually acceptable solution.

The fundamental issue of concern to the U.S. pasta industry and to the U.S. government is the question of the GATT legality of export subsidies for non-primary products. This issue extends far beyond pasta negotiations with the EC. We will pursue vigorously our position on this basic question in the Uruguay Round.

In our current pasta negotiations with the EC, we are seeking an interim solution which provides a fair and equitable competitive environment for our pasta makers. The U.S. position is clear; the current restitution scheme for EC pasta exports to the U.S. is unacceptable. Our preferred solution--for exports to the U.S. only, which comprise less than 30% of the EC market--continues to be one which does not involve export restitutions.

Question. What assurances can you give this committee that you will meet the deadline of July 1?

Answer. Naturally, any negotiated solution will have to be approved by the European Community. The EC has given every indication that it is auxions to resolve the dispute, and the last negotiating session in early March was productive. I am confident that we can arrive at a solution which is acceptable to all involved by July of this year.

Question. Is the Administration prepared to give this item a high priority?

Answer. Resolution of the pasta dispute has been one of our top priorities since the problem arose. As you may know, pasta discussions were held in conjunction with the citrus talks through August 1986. We are well aware of the concerns of Congress, as well as those of the U.S. pasta industry, and we have made the pasta negotiations one of our key agenda items this spring.

Questions Submitted by Senator Rudman

THE TRADE DEFICIT AND THE BUDGET DEFICIT

Question. The solution of the Administration to the trade deficit seems to be the depreciation of the dollar against foreign currencies. This, in theory, should lead to lower costs for American goods overseas and higher costs for foreign goods in America. However, isn't the budget deficit partially financed with investments from abroad? Won't the decline in the value of the dollar lead to a reduction in foreign savings being invested in the American economy, thus exacerbating the pressures the budget deficit puts on the available pool of savings? In the end, isn't sustained deficit reduction necessary to avoid this problem and to contribute to a reduction in the trade deficit?

Answer. The fundamental problem with our trade and current accounts is that the United States has become an increasingly large net borrower of foreign capital because of low national savings. The mirror image of that high net foreign borrowing has been a growing current account deficit. Let me explain how it mirrors our net foreign borrowing.

Since 1982, America has been an attractive haven for foreign investors. In order to lend and invest here, foreigners have to purchase dollars in foreign exchange markets. That strong external demand boosted the dollar's value substantially during the first half of the 1980s. That appreciation, in turn, was a major factor in our large trade and current account deficits.

Our trade and current account deficits supply the dollars purchased by foreigners in foreign exchange markets. Under the flexible exchange rate system, the dollar's value moves whenever necessary to equate the value of capital inflows with our current account deficit. Conversely, there is no way for our current account deficit to decline without a corresponding reduction in our net foreign borrowing.

Why are we borrowing so much? It is because our national pool of savings is insufficient to meet the combined expenditure demands of private investment plus the large federal budget deficit. In 1986, the 3.3 percent of gross domestic product (GDP) gap between domestic savings, on the one hand, and private investment and plus the federal budget deficit, on the other, had to be made up by borrowing from abroad.

In order to reduce our need for foreign capital we must boost domestic saving. The most important action we as a nation can take to boost domestic saving and contribute to a reduction in the trade and current account deficits is to reduce the federal budget deficit. Such actions should be dome by cutting federal spending, since increased taxes could be counterproductive.

AUCTIONING OF IMPORT QUOTAS

Question. One idea that is being discussed as a deficit reduction mechanism and as a financing tool to fund programs to improve competitiveness is the auctioning of import quotas. What would be the problems and benefits of such a program?

Answer. This proposal may be an economist's dream, but it could be a bureaucratic nightmare, and it would raise serious concerns regarding our international obligations. Section 1102

of the Trade Agreements Act of 1979 already gives us the authority to auction import licenses, but every time we have considered doing so we have concluded that the costs far outweigh the benefits.

One proposal would generally require any import quota or orderly marketing agreement imposed as import relief under section 201 of the Trade Act of 1974 to be allocated among importers by public auction. Proceeds of the auction would be deposited in a trust fund account for adjustment assistance to the domestic industry which is being granted the import relief.

Auctioning of quotas would raise serious questions regarding our GATT obligations. GATT Article VIII requires that import fees be limited to the approximate cost of services rendered, and prohibits imposition of fees as a taxation of imports for fiscal purposes or for protection to domestic products. The quota fees that importers would pay as a result of such an auction could conflict with Article VIII and could therefore be a GATT-illegal impairment of tariff bindings. Auctioning would also be incompatible with the GATT Licensing Code. And auctioning of textile or steel quotas would be clearly illegal under the bilateral textile agreements we have negotiated under the Multi-Fiber Arrangement, and our bilateral steel trade agreements.

What are the consequences of this illegality? We would have a duty to compensate other countries or accept retaliation against our exports, for the damage we do to their trade. Our exporters would pay for this economic experiment.

Mandatory auctioning would make it much more difficult to negotiate orderly marketing agreements under section 201 or meat trade arrangements under the Meat Import Act. We have heard from our processed food industry, which uses some imported meat, that an auctioning system for meat quotas would create an intolerable level of uncertainty; businessmen could not do forward planning of production with any assurance that quota imports would be available. And would domestic producers or others interested in raising or distorting the price of imports be able to buy up licenses, and either not use them or cover their costs by simply selling the licensed goods in the export market? There are still a lot of unresolved questions about how the abstract idea of an import quota auction would operate in practice. Finally, auctioning could require the establishment of a new administrative bureaucracy during a period of budgetary constraint.

Questions Submitted by Senator Kasten

FREE TRADE ATTITUDE IN DEVELOPING COUNTRIES

Question (Kasten). Mr. Yeutter, I understand that several countries with whom we have had philosophical differences in the past may be changing. Such countries as South Korea, Singapore, Uruguay and Colombia among others are developing a more free trade attitude. Is this correct and what does this mean for the upcoming multi-national negotiations?

Answer. Yes, it is correct that the countries you have cited, particularly countries like Korea and Uruguay, are developing a more free trade attitude. Singapore, of course, has pursued a free trade policy for some time and continues to stand as one of the most open economies in the world. However, progress has been slower than would be called for by the level of economic development of these countries. With regard to the multinational negotiations, these countries have been supportive of our goals for the Uruguay Round, including the new issue areas of intellectual property, agricultural and services.

TRADE POLICY COORDINATION

Question. Mr. Yeutter, you mention the USTR as the central agency in coordinating U.S. policy. What has been done to resolve what has been sometimes in the past a rather confusing front as to U.S. trade policy?

Answer. We work closely with all agencies in the interagency system. While we have the lead role in the development of policy on trade and trade-related investment, we realize the importance of taking the advice of Congress, the private sector and other interested government agencies. We direct the analysis process, set priorities and timing for consideration of policy issues, and assume responsibility for directing the implementation of that direction. Our office also works closely with the staff of the Economic Policy Council (EPC) to ensure that views of all agencies are considered.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

BIENNIAL BUDGET CYCLE

Question. Would your department/agency favor a biennial budget process?

Answer. Yes

Question. What benefits would your agency achieve in a two-year appropriation cycle?

Answer. Some greater flexibility in dealing with problems posed by having an overseas operation subject to currency shifts could result from having two rather than one year within which to manage the problem.

Question. Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

Answer. Not much. We start from scratch in laying out USTR objectives and accomplishments as the basis for our funding requests to OMB and the Congress.

Question. What difficulties can you foresee in preparing and submitting two-year budget to the Congress?

Answer. Not much. It would encourage more rigor in discerning future program needs, defining future plans and developing justifications for them.

Question. If you oppose the biennial budget concept, please give this subcommittee your reasons why?

Answer. We don't.

INTERNATIONAL TRADE COMMISSION

STATEMENT OF SUSAN LIEBELER, CHAIRWOMAN, INTERNATIONAL TRADE COMMISSION

ACCOMPANIED BY RICK ARNOLD, DIRECTOR OF FINANCE AND BUDGET

BUDGET REQUEST

Senator HOLLINGS. Our next witness is Susan Liebeler, the Chairwoman of the United States International Trade Commission.

For fiscal year 1988, the ITC is requesting $35.4 million, an increase of $1.5 million over fiscal year 1987. This amount provides for 502 full-time permanent positions, which include 20 additional positions funded by the fiscal year 1987 Appropriations Act.

It is a pleasure to welcome you this afternoon, Ms. Liebeler. I understand that you are accompanied by Mr. Rick Arnold, the Director of Finance and Budget, we welcome him. We have your statement, and it will be included in full in the record, and you can deliver it or highlight it as you wish.

Ms. LIEBELER. I will just highlight it, Senator. I would also like to mention that in the rear of the room are three of my fellow commissioners, Vice Chairman Brunsdale, and Commissioners Rohr and Lodwick.

Senator HOLLINGS. Are they monitoring you or me?

Ms. LIEBELER. Both, sir.

TEXTILE BILLS

Senator HOLLINGS. Thank you. I always try to get a quorum. I will never forget when you were the Tariff Commission, back in the 1950s. Tom Dewey was a lawyer for the Japanese, and he chased me around for 2 days on textiles. So you can see my feelings about textiles, and understand them.

Then, President Eisenhower said that we would win the case, and we didn't. We lost it. We have been passing textile bills ever since. We got a policy finally under President Kennedy. We got a bill passed through the Senate under President Nixon, and then one that passed both Houses but was vetoed by President Carter. Now, one passed by both bodies and vetoed by President Reagan. We always get these assurances and everything else of that kind.

COMMISSION VACANCIES

Coming over on your level, where we hope to get enforcement, you have asked for more, but you have not filled the vacancies. How is that? When we are looking for enforcement and you have 41 vacancies right now.

Ms. LIEBELER. We have 41 vacancies right now.

Senator HOLLINGS. Yes, Ma'am.

Ms. LIEBELER. Senator, we were authorized 482 positions until the 1987 continuing resolution when we jumped to 502. So our vacancy rate is a little higher than it would normally appear.

We have just at the beginning of February received approval to go ahead with our reprogramming, and we are now hiring for those 20 additional positions. Without looking at those 20 positions, which would give us an 8 percent vacancy rate, we are at about 5 percent right now, which is pretty standard for agencies our size.

Senator HOLLINGS. Very good. Go right ahead with your presentation.

Ms. LIEBELER. Senator, our budget request which, as you said, is $35,386,000 and 502 full-time positions, is made with the support of the entire Commission. It was unanimous. We feel that this level of funding will enable the Commission to carry out its responsibilities under the trade laws.

AREAS OF RESPONSIBILITY

We have two areas of responsibility under those laws. The first, of course, is our quasi-judicial function under the trade relief laws to make injury and causation determinations. The second is that the Commission provides assistance, analysis, and fact finding studies to trade policymakers.

The increase in our budget request this year reflects increases in nondiscretionary items, and not an increase in caseload. The Commission's workload for import relief cases appears to have leveled off from its precipitous increase in 1982.

The other part of our workload concerns studies and support to policymakers. The Commission produces a large number of periodic reports on specific commodities, and it provides studies on specific industries and on trade matters to Congress and the Executive.

A recent GAO report suggested that the Commission consider reducing the frequency and number of these reports. We will work with Congress and the Executive Branch to ensure that their requirements are met, and at the same time that we use our resources effectively and efficiently.

The GAO report also identified some weaknesses in the Commission's operations. We are working to address these, and I believe that we have begun to make significant progress already.

RELOCATION

We continue to plan for our September, 1987, relocation, when we are going to move all of our staff to new headquarters at 500 E Street, Southwest. A lot of planning has gone into this relocation. We are now at the point of beginning to obligate the $4 million in funds which has been appropriated for the relocation. We are very appreciative of the support of our appropriation and oversight committees for that funding.

Finally, let me state that in preparing this budget, the Commission was aware of the increasingly important role that it plays in implement-

ing the trade laws, and in providing data and analysis on various trade issues to trade policymakers. I am confident that our budget request will provide us with sufficient resources to handle these tasks.

We are aware that you are considering new trade legislation that might assign new responsibilities to the Commission. If we find that we need additional resources to carry out any newly assigned responsibilities, we will request them.

I will be pleased to answer any questions that you may have, and I thank you very much for the opportunity to present our budget to you.

[The prepared statement of Ms. Liebeler follows:]

PREPARED STATEMENT OF SUSAN LIEBELER
CHAIRMAN
U.S. INTERNATIONAL TRADE COMMISSION

Mr. Chairman and members of the Subcommittee, this is my first appearance before your Subcommittee as Chairman and I thank you for the opportunity to present the International Trade Commission's budget request for fiscal year (FY) 1988. Seated next to me is Richard Arnold, the Commission's Director of Finance and Budget.

The Budget Request

The budget request that I am presenting today has been unanimously approved by the Commission. Our request totals $35,386,000 and provides for 502 full-time permanent positions, including the 20 additional positions provided by Congress in the FY 1987 Continuing Resolution.

The $35,386,000 represents an increase of $1,486,000 (or 4.4%) over our FY 1987 appropriation. Our FY 1987 appropriation however, included $4,000,000 for the Commision's relocation, a one-time appropriation which remains available for relocation expenses as they occur. Thus the FY 1988 request represents a real increase of $5,486,000 (18.3%) over the $29,900,000 appropriation for FY 1987 for the operating portion of the budget.

Our budget request includes increases totalling $5,918,000 for three non-discretionary cost items:

First, approximately $1,084,000 for increased salary costs, including anticipated step increases, promotions and related benefit increases and the January 1987 three percent cost-of-living increase.

Second, approximately $1,381,000 for the increase in retirement costs due to the newFederal Employees' Retirement System.

Third, approximately $3,453,000 for increased space rental costs at our new headquarters to which we will be moving in September 1987.

Finally, the Commission's budget request reflects a decrease of $432,000 for administration and services due to cost-savings in these areas.

This budget would fully support programs at the level authorized for FY 1987. All of our program and operational needs would be fully staffed.

Many of the Commission's substantive responsibilities involve investigations under the import relief statutes and trade and tariff-related studies under Section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). Our investigative workload has declined since its precipitous increase in 1982. In that year, 292 investigations were instituted, almost twice as many as in the previous year. Of course, a substantial portion of that increase was attributable to the filing of 92 steel cases. In FY 1985, 239 investigations, including 35 related steel cases, were instituted and in FY 1986, 214 were instituted. The Commission has projected that approximately 244 investigations will be instituted in FY 1987. Data from the first quarter FY 1987 reveals that fewer new investigations have been initiated than initially projected. At this time, however, uncertainty over the final form of any new trade legislation and its

impact on the workload of the Commission precludes any revision of the original estimate.

Import Relief Investigations

Investigations under the antidumping and countervailing duty statutes (Title VII) continue to consume a large part of the Commission's resources. Title VII caseload can be counted in various ways. A single petition filed under Title VII is usually given several investigation numbers, one for each foreign country covered by the petition and sometimes one for each separate major product, even though typically a single investigative team does all the work, a single hearing is held, information is collected from the same group of domestic producers, and a single report is produced. When counted by investigation numbers, the Commission instituted 47 Title VII cases during the first quarter of FY 1987 and we project a total of 160 separately numbered investigations for this fiscal year. In FY 1986, 158 such investigations were instituted compared to 185 in FY 1985.

Since counting by investigation numbers may not give the most accurate picture of actual workload, we have also developed statistics on the basis of separate product groups for each petition, which I believe is a better measure of workload than investigation numbers. The Commission instituted a total of 87 product line investigations in FY 1986 compared to 102 in FY 1985. Eighteen investigations were instituted during the first quarter of FY 1987. Regardless, however, of which system is used, approximately 15% fewer dumping and countervailing duty investigations were filed in FY 1986

than in the previous year. Thus the caseload in this area appears to have leveled off.

Some of the agency's more publicized cases are our so-called fair-trade cases. They are so described because petitioners need not allege any unfair trade practice in order to obtain relief. Most of these import relief petitions are filed under section 201 of the Trade Act of 1974 (19 U.S.C. §2251). Under this statute, commonly referred to as the "escape clause," the Commission must determine whether increased imports have been a substantial cause of serious injury, or threat thereof, to a domestic industry. In FY 1986 the Commission decided five of these cases, involving wood shakes and shingles, apple juice, metal castings, steel fork arms, and electric shavers. The Commission has projected that it will have six such cases both in FY 1987 and in FY 1988. However, as of the fifth month of this fiscal year we have instituted only one such case. The investigation is in response to a petition by the stainless steel industry to extend the relief previously granted it in an escape clause proceeding.

We anticipate that another kind of fair-trade case will be underway shortly. It is my understanding that the United States Trade Representative will soon request the Commission to investigate whether rapidly increasing imports of certain tungsten compounds from the Peoples Republic of China are a significant cause of material injury, or threat of material injury, to U.S. producers of this product. This investigation would be conducted under Section 406 of the Trade Act of 1974 (19 U.S.C. §2436).

Finally, we expect that about 25 percent of our investigative resources will continue to be devoted to cases brought under section 337 of the Tariff Act of 1930

(19 U.S.C. §1337). These cases involve alleged unfair methods of competition and unfair acts in the importation or sale of articles into the United States. These investigations typically involve the infringement of an intellectual property right, such as a patent, trademark, or copyright. Currently, our largest section 337 investigation involves claims by Texas Instruments that ten of its semiconductor patents are being infringed by Japanese and Korean producers. A number of Japanese producers have recently entered into settlement agreements with Texas Instruments.

We have projected that the 337 caseload will increase to 32 in FY 1987 from 29 in FY 1986. However, as of the fifth month of the fiscal year we have instituted only 6 such cases, with institution decisions pending in 2 more. The slow down in filings may indicate a decline in the use of Section 337. It may be, however, that potential complainants are waiting to see if legislative changes will be made to section 337.

Economic Studies and Reports

The Commission is frequently called upon by the Congress and by the President to conduct investigations on trade and tariff issues under Section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). During FY 1986 the Commission initiated 19 Section 332 studies in response to requests from the Congress and the President, compared to 20 in FY 1985. The Commission self-initiated one study in FY 1986 and 4 in FY 1985. All 16 studies currently underway or imminent result from legislative or executive requests.

The most ambitious of the current projects examines several domestic industries. At the request of the Senate

Finance Committee, the Commission is studying the competitiveness of six industries: textile mills, building-block petrochemicals, steel sheet and strip, automotive parts, optical fibers, and oilseeds and certain by-products. The Commission held a hearing earlier this week on these industries. Other current studies cover precious metal jewelry, developing-country debt problems, a possible U.S.-Canada free-trade arrangement in services, standardization of rules of origin, and Canadian live cattle and beef.

Section 332 studies recently completed addressed U.S.-Mexican trade, the tuna industry, the Generalized System of Preferences, vegetables produced in the Great Lakes states and in Canada, the effect of tax reform on competitiveness, and a proposed free-trade area between the U.S. and Canada. I have listed here only some of the studies recently conducted or currently underway at the Commission.

The ITC will continue to play an important role with respect to the Harmonized System. We expect that the Commission staff will be called upon to provide technical advice and support for the Article XXVIII negotiations under the GATT relating to the Harmonized System, as well as for ongoing discussions at the Customs Cooperation Council. In anticipation of U.S. implementation of the Harmonized System, we are also preparing for the maintenance of the official version of the U.S. tariff schedule as well as associated cross-references from the current to the new tariff schedules.

The Commission also continues to produce a large number of periodic reports on specific commodities, including automobiles, heavyweight motorcycles, footwear,

rum, brooms and mushrooms, and on the performance of the steel industry. The Commission always provides copies of these reports at no charge to Congress, the Executive Branch, and other agencies. The Commission does, however, incur considerable additional printing, mailing and distribution costs by giving many hundreds of copies to other requestors outside the government. Although some of these reports are done in response to statutory requirements, a recent General Accounting Office study of the ITC has recommended a review of the need for the frequency and extensive distribution of many of the Commission's reports. GAO also recommended that the Commission consider charging user fees as provided in 31 U.S.C. §4701. In responding to these recommendations, we will work with Congress and the Executive Branch to ensure that their needs are met and that the Commission's resources are being used efficiently.

In addition to these reports, we provide numerous background reports on proposed legislation to the Commission's oversight committees. During FY 1986, 107 such reports were provided on proposed legislation, and a great deal of informal assistance was also provided. We project that these demands will continue at past levels.

Litigation Workload

Unlike some other agencies, the Commission has independent authority under 19 U.S.C. §1333(g) to argue its own appeals, rather than referring them to the Department of Justice. The number and complexity of Commission decisions on appeal has increased steadily since the early 1980's, from 39 active cases in January 1984 to 75 in January 1986. The workload appears to have leveled off in a range of 65 to 75 active appeals.

To accommodate this workload, the Commission increased the authorized full-time permanent staff in the Office of the General Counsel from 34 in FY 1986 to 45 in FY 1987. The Office of General Counsel is recruiting actively at this time and with 45 authorized positions it will be able to meet current and foreseeable needs.

Relocation

In September 1987 the Commission will move to our new headquarters at 500 E Street, S.W, where all of our staff will be together at one location. We look forward to improved working conditions and appreciate the strong support of our oversight and appropriations committees for this move. The Commission, in close consultation with GSA, will soon begin to spend the $4,000,000 provided in FY 1987 for relocation expenses. These funds will remain available for relocation expenses incurred after this fiscal year. Based on our experience thus far, the $4,000,000 will be sufficient to meet our requirements.

Conclusion

It is likely that trade and trade legislation will remain in the forefront of public debate for the next few years. As a result, the Commission will continue to play a very important role in its quasi-judicial determinations under the trade laws. In addition, the independence and expertise of the Commission will continue to attract requests for data and analysis of trade issues. New rounds of trade negotiations begun in Punte del Este may create demands for the Commission's comment and advice. The growing demand for sophisticated analysis in import relief investigations and fact-finding studies will require greater expertise in both international trade and industrial organization at the Commission. One step

toward this goal is an active in-house training program to improve the skills of the professional staff in economic, financial, accounting and statistical analysis. We have also intensified our efforts to attract first-rate professionals to add to the highly dedicated, skilled staff of the Commission.

It is important that Congress have confidence in our ability to provide sound analysis and data to trade policy makers and at the same time to fulfill our responsibility for investigating claims under the import relief laws. I believe that the Commission's budget request for fiscal year 1988 will provide us with sufficient resources to meet these demands. I understand that additional duties are being contemplated for the Commission. If we find that we need additional resources to accomplish them, we would not hesitate to request additional funds. I will be pleased to answer any questions you may have.

Thank you.

BETTER ENFORCEMENT OF TRADE LAWS

Senator HOLLINGS. We appreciate your statement.

Do you have, from your experience, any recommendations to us over here in the Congress, who are all now in embroilment with respect to all kinds of ideas?

Better enforcement, for example, would you recommend anything to the Congress itself that would help us have better enforcement of our trade laws?

Ms. LIEBELER. First, Senator, let me preface my remarks with the statement that the Commission ordinarily does not take positions on such policy matters.

There is a wide plate of legislative initiatives before you right now. Our staff is analyzing those very carefully. I have nothing to add to the plate at this time. We are having a hard time keeping up with what is going on in your forum. We are looking at those very carefully to see how they impact our agency.

Senator HOLLINGS. But you must have some feel with respect to enforcement, you make all of these studies, and everything else. As you said, it is a full plate, and you see all of these things.

From the experience that you receive at the International Trade Commission, it would seem to me that you should have some idea that most of them are worthless, or not needed, or needed, or have some idea on the positive side by way of suggestion to the Congress. Do you have any suggestions at all?

DOMESTIC INTELLECTUAL PROPERTY RIGHTS

Ms. LIEBELER. Senator, there are a variety of proposals before the Congress. Senator Lautenberg is not here right now, but the proposals for the protection of domestic intellectual property rights, I think, are very important ones.

Particularly, the proposals that affect the Commission would result in better protection for American intellectual property rights on protecting those kinds of intellectual property rights allows Americans to sell more, and that is a very important goal of trade law.

ROLE OF THE COMMISSION

Senator HOLLINGS. With respect to the mundane, rather than the intellectual, like the old shoe case that has been coming before the Commission, time and again you make a unanimous recommendation, and nothing happens. What is your comment?

Ms. LIEBELER. Senator, those are very difficult political issues. The Commission's role in these cases is a very technical and narrow role.

Senator HOLLINGS. Is that a suggestion that you are making when you emphasize the technical and narrowness in nature of the role? Should we broaden the role?

Ms. LIEBELER. I am not suggesting that the role should be broadened, Senator let me make that clear.

Senator HOLLINGS. You don't think that it should be?

Ms. LIEBELER. I am not asking that the Commission be given additional responsibilities. I think that the escape clause to which I think you are referring is a very carefully crafted piece of legislation, which gives the Commission a very specific set of tasks to do.

The hard political questions, which follow if the Commission recommends quotas or tariffs, are decided by the Executive Branch or by Congress. Those are political forums where those issues should be decided.

COMPUTERIZATION

Senator HOLLINGS. I notice in your statement a reference to computerization. I think that you have more computers than you have people. You have 500 people and 600 computers. I can see that little IBM ad, that fellow running around and trying to keep up over there.

Ms. LIEBELER. They have 1200 hands, Senator.

[General laughter]

COMPUTERS

Senator HOLLINGS. How many computers do you have?

Ms. LIEBELER. Senator, we don't have 600 personal computers. When I came to the ITC, we had, I think, none. I had the first three. We have

69 right now, and a significant number of Wang word processing terminals, one main frame and some dumb terminals. We don't have 600 PCs. We are not buying 600 PCs.

Senator HOLLINGS. I see that it was a recommendation in a consultant's report that you buy 600 micro-computers. That is where we got that information.

The consultant, did you ever find out why he would recommend 600 micro-computers for a 500-man staff?

Ms. LIEBELER. Before I get to the consultant's report, it is not unusual for an organization to have more computers than it does have people. I am not suggesting that that is where the ITC is going, on that it is necessarily a good idea, but frequently you will find that training facilities, libraries, and multi-purpose conference rooms and hearing rooms have computers. Sometimes that is why they look like they have more computers than employees. I am not suggesting that the Commission is going that route.

That study was a very comprehensive study by a consulting firm that provided four options for the Commission's consideration in its information resource management decisions. We are in the process of evaluating these four options.

Six hundred is a little high on the PC side. It seems to me that 600 sounds like an awful lot. It is one of the things that I have asked a staff committee to look at. They are going to have to convince the Commissioners first, and then we know that we have to talk to you about 1t. We are not buying 600 PCs.

Senator HOLLINGS. We can't get one per person in our own offices. So we are rather intrigued with the idea that you can have more than one per person.

When you get that $1.8 million to purchase the hardware for your new office automation system, does that discontinue then the use of the computer at NIH?

Ms. LIEBELER. No, sir, it would not.

Senator HOLLINGS. You would still have demands over there?

Ms. LIEBELER. Sir, we rent facilities from them on a time basis.

COMPETITIVENESS STUDIES

Senator HOLLINGS. When you are asked, for example, by Finance Committee in your statement to make a study of an industry, including textiles, what is the general experience? Do you make it a week study, a 2-month study, or a 2-year study? I am trying to get a feel for it.

Ms. LIEBELER. I believe that those competitiveness studies are to be done sometime in the fall of 1987. Just the day before yesterday, we held hearings for those competitiveness studies, in fact, on all six industries, including textiles.

Studies ordinarily do not take 2 weeks, and they ordinarily do not take 2 years. It depends on the requesting office's preference. Sometimes, the studies are 9-month studies, and sometimes they are a 1-year study. It depends on the request of the committee.

TEXTILES

Senator HOLLINGS. The Congress, for the past 2 years, has been involved in a textile debate ad nauseam. I kept them up all day and all night for 7 days, at one time, in a row. It seems like they would have heard enough. Could it be that the study is asked just to delay and frustrate?

You are not going to have the report before fall, and this means that we will not really be able to look at the study until next year. Are we going to hear from the Finance Committee, then, that we ought to wait until next year?

Ms. LIEBELER. Senator, I am now able to tell you that at least for textiles, you are only going to have to wait until July.

Senator HOLLINGS. Now we are making progress.

Ms. LIEBELER. I just gave you a couple of months.

Senator HOLLINGS. I can see that report by July?

Ms. LIEBELER. The Commission is very good at meeting its deadlines. I am confident that since we have a July, 1987, deadline, we will meet it.

VISITING TEXTILE FACILITIES

Senator HOLLINGS. In making a study, would you go out and look at some of these facilities yourself, or the staff does it?

Ms. LIEBELER. Sometimes both. Frequently the Commissioners visits plants as well as staff.

Senator HOLLINGS. What is the intent with respect to this particular one on textiles? I would like you to come and visit some of them, and you can pick which ones you want to look at.

Ms. LIEBELER. I would like you to suggest which ones you would like us to see. Why don't I have our staff get in contact w1th your staff, and perhaps you will have some very good suggestions for us.

Senator HOLLINGS. I have seen just about all of them, and they are showcases now. The Pentagon would like to get the research that they have over at Milliken Textiles. They don't have anything in the Pentagon to match it.

Ms. LIEBELER. Do they have a lot of PCs?

Senator HOLLINGS. They have one set over there, one grouping under restricted access, that is just fantastic. The Pentagon doesn't have anything like it. They can design anything you want now as you watch, put it up, group it together. It is better than a Cad and better than a Cam. I would like you to see that. If you do have time, we will correspond with you, so that you can get to see some.

I agree that there has been room over the years. When I started, back in the 1950s, there was much room for improvement. I got tired of getting all the dust and dirt in my face as I was making the shifts, and going through those plants, but not any longer. They are really modernized, and way better than the Koreans. I have been through the Korean plants just recently.

It will be a showcase to watch from a competitiveness standpoint, and the actual productivity figure is right there at the Department of Labor,

so you don't have to go far for that. We know our track record, and we are proud of it. We would like for you to come and look at it.

Ms. LIEBELER. We look forward to it, Senator.

SUBMITTED QUESTIONS

Senator HOLLINGS. Thank you very much. Senator Sasser has some questions, and I have some, and there are questions from other members that we will submit for the record.

Ms. LIEBELER. We will be happy to respond to those.

Senator HOLLINGS. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Commission for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

ADMINISTRATIVE ISSUES

The General Accounting Office recently completed their report on the "Observations on the Operations of the International Trade Commission." The report is very critical of a number of administrative practices within the Commission, particularly the handling of classified material, property management, and procurement activities.

Question:

1. Is it true that GAO auditors discovered over 100 boxes of documents and piles of paper stacked openly in one of the offices that handles classified National Security Information?

Response:

Yes. The GAO auditors did observe boxes and stacks of documents in one ITC office, some of which bore national security classification labels. The 100 boxes and other documents in question have been placed in bar-locked file cabinets and are now secured in accordance with applicable security regulations.

The ITC has worked with GSA over the past year to organize a large volume of records which had accumulated in the Commission's Office of Executive and International Liaison. These records cover the day-to-day operations of the Federal Government's Trade Agreements Program since the program's inception in 1934. More than 300 boxes of material have been disposed thus far. The documents observed by GAO were the residual from this project.

Question:

2. Is it true that ITC Directive 1350, dated January 25, 1984 setting forth procedures for safeguarding and accounting for classified National Security Information was not being followed by the offices handling classified material?

Response:

Yes. Deficiencies were found in our logs of national security information, and logs of daily security checks were not being maintained in several offices. This condition persisted because the Commission had no program in place to assure compliance with our National Security Information (NSI) Directive. Although we handle relatively little NSI--most of which is classified at Confidential, this is obviously an unacceptable situation.

The Commission has taken steps to correct the problem. I immediately ordered the creation of the Information Security Committee called for in ITC Directive 1350. That Committee was formed and has already developed a draft of a comprehensive remedial plan for addressing the weaknesses identified by GAO and for certain other problems. For example, the Committee is also overseeing the development of back-up procedures for our automated data processing system, the lack of which was identified as a material weakness in my FY 1986 certification to the President under the Federal Financial Managers' Integrity Act.

I also intend to propose an audit of our security system performed before the end of the calendar year to assess the success of the security program and identify any continued weaknesses.

Finally, I have also taken steps to assure proper safeguarding of confidential business information (CBI). We handle a much larger volume of CBI than we do of NSI, and CBI--principally company data gathered by questionnaire during our investigations--is much more important to our agency mission. I initiated an internal review of our questionnaire data processing as soon as I became Chairman. As a result, some additional measures to assure security of CBI were implemented last fall. The new Information Security Committee will also address other CBI issues identified by the GAO report.

Question:
3. Is it true that an information security committee, to be composed of the Director of Administration, who would serve as Chairman, and representatives from four other offices was never established in accordance with the same 1984 directive?

Response:
That is true. The Information Security Committee had not been formed at the time of GAO's review. Following the GAO report, I directed that such a committee be established immediately. It was established on February 16, 1987.

Please see my answer to the previous question for a more detailed description of the additional responsibilities assigned to this Committee.

Question:
4. What assurance is there that classified material provided by companies and other government agencies has not been compromised?

Response:
The Commission does not know of any instance where such information has been compromised, nor did GAO cite any such instance in their recent study. The Commissioners and the staff are acutely aware of the need to safeguard sensitive information. Instances of suspected compromise are investigated immediately by the Director of Administration in consultation with the Commission's General Counsel and others as necessary.

Procedures for the handling and safeguarding of national security and confidential business information are contained in ITC's Directives 1350 and 1355. Additionally, the Code of Federal Regulations (particularly 19 CFR 210) contains procedures for the submission and disposition of confidential business information. All persons hired by the ITC receive Directives 1350 and 1355 in a pre-employment package of information and they are required to sign the Government's standard non-disclosure Agreement (SF-189) before they are hired. When this agreement became effective about two years ago, all existing ITC employees were required to sign these agreements. Additionally, all contractors hired by the Commission must sign a similar agreement (SF-189A).

All ITC staff have copies of the Directives for reference and they are required to attend an education program annually to refresh themselves on procedures.

The Commission is committed to protecting confidential and classified information. The newly formed Information Security Committee is studying the problems identified by GAO and has developed a preliminary plan for improving the Commission's security systems.

Question:
5. What is the status of the Director of Data System's recommendation that a plan be developed to protect classified data in the ADP systems?

Response:
The Director of the Office of Data System is a member of the newly-formed Information Security Committee which has been assigned responsibility for overseeing the development of an ADP security plan. A draft statement of work for an ADP security study contract is being completed. In addition, the ITC has received guidance from the National Computer Security Center at NSA on improving ADP security.

The Commission maintains no national security information on its computer systems.

Question:
6. Is it true that there are no written policies and procedures covering the recording and accounting for ITC property? What plans do you have to develop property management procedures?

Response:
Yes, it is true that there are no such policies and procedures in place. A contractor has been selected to help design policies and draft procedures for property management and we expect to have these completed by the end of April. Once those policies and procedures have been developed and are in place, I intend to initiate a comprehensive audit of the property management system.

Question:
7. How does the property custodian currently perform his function?

Response:
When I became Chairman on June 17, 1986 I was concerned with the adequacy of the Commission's property management system and wondered how the official responsible for property management could perform his functions.

One of my first initiatives as Chairman was to request an outside audit of the Commission, including a review of property management. Because a majority of the Commissioners disagreed with the need to audit property management immediately, it has not yet been audited.

In the meantime, the following steps have been taken to improve the agency's property management system:

* A contractor has been selected to help design policies and draft procedures for property management and we expect to have them completed by the end of April.

* A property management software system has recently been installed. Current acquisitions are being included, and cost data is being incorporated into the general ledger under the guidance of our auditor, Arthur Andersen. Records are being searched for cost data on prior purchases. Where no records are available, original cost figures are being estimated using GSA schedules and other similar sources.

* A separate data processing system is in place for office furniture since such purchases generally fall below the $5,000 mark set up by GSA for inclusion separately in the general ledger. These files are being transferred to the property management software system. Bar coding of furniture and equipment will be underway shortly for monitoring and control. In the meantime, all furniture and equipment have been charged to managers who are being held accountable for safeguarding the assets.

* Within the next few months I intend to initiate an audit of the property management system. The auditors should assess the adequacy and implementation of the new policies and written procedures and control measures and check for evidence of waste, fraud and abuse.

Question:
8. Is it also true that the Commission was not complying with the Federal Acquisition Regulation for preparing, distributing, administering and maintaining files on solicitations and awards? Why wasn't this problem included in the Federal Manager's Financial Integrity Act reporting to the Chairman?

Response:
It is true that the Commission has not consistently complied with Federal Acquisition Regulations (FAR). Because of my concern with the contracting and procurement operations of the Commission, I arranged for a procurement expert from outside the agency to review

our Contracting and Procurement Division and the procurement process. The report submitted by this expert identified a number of weaknesses. The conclusions of the report were cited in the GAO Report. All recommendations have been accepted by Commission procurement officials, who have provided a plan for correcting the weaknesses listed in the report.

I cannot be certain why these weaknesses were not included in the report of the Management Control Officer on the Federal Managers' Financial Integrity Act. A draft report outlining the reviewer's conclusions was available prior to the final submission of the Control Officer's report. It is my opinion that the Management Control report should have been amended to include the procurement weaknesses. This discrepancy undermined my confidence in the ability of our management control system to identify material weaknesses and nonconformances. As a result, in my December 24, 1986 annual Integrity Act Certification, I indicated that I could not be assured by the reports given to me by office managers and by the agency's management control officer that they had identified all material weaknesses and nonconformances.

Your budget justification reflects a noticeable decrease in fiscal years 1986, 1987 and 1988 in the workyears assigned to the Office of Administration.

Question:

1. What impacts will this decrease have on the Office's ability to correct the deficiencies identified by the GAO?

Response:

In addition to the work of employees assigned full time to administrative duties, time is reported in administrative workyears for non-administrative employees for such things as union activities, occupational health and safety activities, equal employment activities, participation on ranking and selection panels, and data-processing activities related to administrative functions. Therefore, the decrease reflected in our budget justification relates to all these functions and not just the Office of Administration.

The major component of the decrease in workyears projected for 1987 and 1988 is a reduction in the use of temporary employees. In large part, these employees have been used to maintain an adequate working environment in the very old building in which the agency is currently housed. In 1988, the entire Commission will be consolidated in a new building where we anticipate there will be a reduced building maintenance workload for administration.

There is nothing in the GAO report to suggest that the deficiencies were caused or related to the number of personnel in the Office of Administration.

Question:

2. As of February 14, 1987 the Commission had 41 vacancies. Are any of these vacancies in the Office of Administration?

Response:

There were two vacancies in the Office of Administration, one in the Publications Services Division and one in the Director's Office. Both are in the recruitment process.

The Commission has performed vulnerability assessments in connection with the Federal Manager's Financial Integrity Act.

Question:

1. What management weaknesses have these revealed?

2. Have these weaknesses been diligently addressed?

Response:

The following material weaknesses have been reported in the Chairman's annual certification under the Integrity Act:

1. The Commission has never had a comprehensive audit program to review financial or program activities.

This weakness, identified first in 1983 by GAO, was finally resolved in January 1987 when a contract was signed with Arthur Andersen and Co. to provide a comprehensive audit program. An audit of the Commission's accounting system and FY 86 financial statements is now underway. The audit contract provides for future audit services over a three year period.

2. The Commission does not have a comprehensive information system security directive or procedures.

A consultant is being retained to review the Commission's needs in this area and to draft recommended procedures and directives for the Commission. This project is expected to be completed by June 30, 1987.

3. The Commission does not have an ADP disaster recovery/contingency plan, to use as a backup in the event of a major breakdown of on-site ADP equipment.

The Commission is retaining a GSA schedule contract vendor to provide backup service, beginning approximately March 20, 1987.

4. The property management system does not include cost data, with the result that the fixed assets general ledger account cannot be reconciled with physical property records.

A contractor has been selected to help design policies and draft procedures for property management and we expect to have these completed by the end of April.

A property management software system has recently been installed. Current acquisitions are being included, and cost data incorporated into the general ledger under the guidance of our auditor, Arthur Andersen. Records are being searched for cost data on prior purchases. Where no records are available, original cost figures are being estimated using GSA schedules and other similar sources.

A separate data processing system is in place for office furniture since such purchases generally fall below the $5,000 mark set up by GSA for inclusion separately in the ledger. These files are being transferred to the property management software system. Bar coding of furniture and equipment will be underway shortly for monitoring and control. In the meantime, all furniture and equipment have been charged to managers who are being held accountable for safeguarding the assets.

Within the next few months I intend to initiate an audit of the property management system. The auditors should assess the adequacy and implementation of the new policies and written procedures and control measures and check for evidence of waste, fraud and abuse.

Automation

Question:

1. You indicated in the budget justification that you are studying a consultant's report on office automation (page 2). Is it true that this study recommended that ITC, with about 500 people, buy 600 microcomputers? Could you explain what your consultant's reason was for recommending the purchase of more microcomputers than you have staff? How many do you plan to buy?

Response:

The first draft of the consultant's report did use the 600-workstation figure, because we asked them to use a maximum figure to show us what the maximum budget impact of the project might be. They were never asked to recommend any specific number of workstations; they were comparing the features and relative prices of alternative office systems we might consider. For their final report, we instructed them to make cost comparisons based on 450 workstations, since by that time we had concluded that this was a more realistic maximum number.

The staff is currently preparing a recommendation for a replacement office automation system that is based on a standard of one workstation per room in our new building. This standard would work out to about 370 workstations. For comparison, we now have about 355 workstations, including dedicated word-processing machines, "dumb" terminals, and a number of personal computers.

Question:

2. A few years ago, ITC bought its own mainframe computer. Why is ITC still spending about $500,000 for NIH mainframe services. What percent of its mainframe computer capacity is ITC currently using? Could the computer services now supplied by NIH be handled by the in-house computer?

Response:

It is not and will not be feasible to transfer most of the work we do at NIH to our smaller in-house machine. At NIH we access massive trade data files maintained there by other Federal agencies. We have transferred several ITC administrative applications from NIH to our machine, and we have developed several new applications on the in-house machine that otherwise would have meant additional expenditures at NIH or elsewhere. NIH expenditures peaked last year at $404,000 after several years of growth, and are running at a rate of $336,000 this fiscal year. The growth in our use of NIH occurred mainly as a result of improvements we made in our ability to produce trade data reports quickly and cheaply. Demand for this information has soared as a result. We do not see this as a problem, but we are, of course, monitoring these expenditures.

Utilization of our in-house mainframe has grown slowly. On average over a recent month we were using about 80 percent of the system's disk storage capacity, 55 percent of its communications ports and 30 percent of available CPU cycles. We have found it difficult to provide in-house service and support as attractive as that available at NIH. At this point, our in-house machine is also near the end of its technological life. I have, therefore, asked our staff to conduct a study this fiscal year to determine the most cost-effective way to handle our data-processing requirements in the years ahead. Current OMB guidance is that agencies should acquire new in-house data-processing capacity only after first considering the availability of commercial facilities or Government-owned facilities (like NIH), and only if there is a clear cost advantage to maintaining an in-house facility. I fully support this approach.

Question:

3. Your staff has indicated that it will require approximately $1.8 million over the next 2-3 year period to design, program and purchase the hardware for a new office automation system. What impact will this system have on the mainframe computer that you currently have? Will the new system allow you to discontinue using the computer at NIH?

Response:

The new system is intended to replace our aging word-processing systems and to provide relatively small-scale "end user" processing capabilities. We do not expect it to have a major effect on our use

of the NIH system, which is used mainly to access and process very large trade data files that are maintained there by other federal agencies.

Likewise, we do not expect the office-automation system to replace our in-house mainframe computer in the short run. I have instructed the staff to prepare a study this year of our future data-processing options. It is possible that it will prove economical to phase out the in-house mainframe and move the work being done there either to NIH or to the office-automation system. If so, we would add the minimum amount of extra capacity needed to do this work to the office automation system.

Relocation of the Commission

Question:
1. What is the status of the relocation of the Commission to its new building at 500 E Street, S.W.?

Question:
2. Since this is a "forced move", what relocation costs will the General Services Administration cover? What is the breakdown of the $4.0 million provided the Commission in FY 1987?

Response:
Public Law 98-523 (October 19, 1984) transferred the Commission's headquarters building at 701 E Street, N.W. to the Smithsonian Institution and required the General Services Administration (GSA) to relocate all Commission functions to a single downtown Washington, D.C. office facility. Commission staff worked for over a year with GSA, and in April 1986, GSA signed a lease to provide the Commission with a consolidated location at 500 E Street, S.W.

Construction of the new building is currently underway and on schedule. The building is expected to be ready for us to occupy in September 1987. Layout planning for our space is nearly complete and we will soon be focusing on the logistics of the actual move.

In an amendment to the Commission's FY 1987 budget request we proposed an estimated relocation requirement of $4,000,000, made up of costs for one month's double space rental ($408,000) during the move, other services ($315,000), equipment ($1,665,000), and land and structures ($1,612,000). This was our best estimate at the time and still appears to be what the Commission may be required to expend for the relocation.

We are finalizing our negotiations with the General Services Administration (GSA) and the builder, and will soon have more accurate figures of what the Commission's actual costs will be. To date the only costs incurred directly chargeable to relocation have been for two contracts for planning assistance:

Not to exceed $10,000 to review audio-visual plans for hearing rooms at the new building, and recommend appropriate changes.

Not to exceed $5,500 to analyze acoustic plans for the courtrooms and recommend appropriate improvements.

Question:
3. Does the Commission intend to move its mainframe computer to the new building?

Response:
Yes. Last fall I asked the staff to examine the possibility of disposing of the in-house computer before the move, since it is approaching obsolescence and we have not achieved the rate of efficient utilization of the system anticipated when it was acquired in 1981.

The staff advised me that it would be impossible to convert the applications now running on the mainframe to other systems before the move, especially since other activities related to the move will be requiring increasing amounts of staff time this year.

I have asked the staff to conduct a study this year of our most effective data-processing alternatives for the future to lay the groundwork for a decision on the mainframe.

Recurring Reports and Services

Question:

The synthetic organic chemicals reports require seven work years costing $400,000. For other industries, their trade associations put together this kind of statistical information. Why does ITC perform this special service for the chemicals industry?

Response:

The organic chemical report is only one example of recurring reports the Commission publishes. The Government Accounting Office's recent review of the Commission's operations questioned the benefit of the frequency and extensive distributions of these reports. GAO also recommended that the Commission consider charging user fees for its reports under 31 U.S.C. §9701.

I am encouraged by GAO's support for reducing the number of recurring reports the ITC currently provides. Our legislative liaison has begun working with the Commission staff in an effort to identify instances where consolidation or less frequent reporting might be appropriate. Particular attention will be paid to the organic chemical report. The results of this effort will be discussed with the Commission and, where appropriate, with government entities that requested or required the reports.

The Commission will, of course, continue to provide reports at no charge to Congress, the Executive Branch, and other agencies. The Commission does, however, incur considerable additional printing, mailing and distribution costs by giving many hundreds of copies to requestors outside the government. User fees, provided for in 31 U.S.C. §9701, would provide information about demand for the goods and services being supplied, information that cannot be inferred when the reports are provided free of charge. Print runs should be continued for publications whose demand holds up when fees are charged, but publications whose demand drops precipitously or disappears when faced with a user fee should be re-evaluated. Such a policy would allow agency resources to be devoted to more productive uses. I support the creation of a user fee program as part of our overall effort to streamline our recurring reports and will attempt to have the Commission institute such a program.

In connection with the review of the Commission's recurring reports, we will, of course, work closely with Congress and the Executive Branch to see that their needs are met and that the Commission's resources are used effectively.

Under ITC's trade monitoring program the Commission analyzes significant trade shifts in commodities.

Question:

1. What trade shifts have you identified recently?

Response

The Commission publishes numerous monthly, quarterly, and annual reports that provide information on trade shifts. Certain of these reports follow specific products and are the result of a Congressional or Presidential mandate; others cover the whole spectrum of U.S. trade.

As an example, the latest comprehensive quarterly trade shift report, published in January, 1987, identified and discussed significant trade shifts in many product areas when comparing the third quarter of 1986 with the third quarter of 1985, including the following:

A $1.2 billion increase in U.S. imports of textiles, apparel, and footwear.

A 55 percent increase in the quantity of crude petroleum imports accompanied by a decline of 35 percent in value as world crude petroleum prices softened.

A $0.5 billion increase in imports of chemical products, largely plastics products.

A decline in imports of iron and steel mill products of $0.7 billion largely because of the effects of the U.S. program to limit imports of certain steel mill products through voluntary restraint agreements.

A 23 percent increase in U.S. exports of aircraft to $3.5 billion as shipments of large transport airplanes to Japan and Sweden increased.

Question:
2. What benefits have resulted from your identifying these shifts?

Response:
ITC staff believes that identification of trade shifts produces the following benefits:

Administration and Congressional staff have direct access to the latest trade information and analysis to assist in policy decisions. For example, the Commission is currently providing requested monitoring reports to the President or Congress on autos, steel, and footwear, as well as conducting numerous industry specific factfinding investigations.

The Commissioners and Commission staff are better prepared to address their mandated trade investigations by having a more complete understanding of the trade shifts that are occurring, both on a broad sector basis and on a detailed products level.

U.S. industry and the public in general are better informed of the trade shifts which are and will increasingly affect them as a result of the Commission's monitoring publications.

I plan to subject the trade shift reports to the same general review as other Commission reports. For a more detailed description of this review, please see my answer on page 29, supra.

Commission Organization/Structure

Madam Chairman, during the period that you have served on the ITC, both as a Commissioner and as it's Chairwoman you have undoubtedly formed opinions as to the effectiveness of the Commission in carrying out its charter.

Question:
1. Would you comment on whether the current structure of the Commission is effective in assuring that the taxpayer is getting the best return for his dollar?

2. What recommendations would you suggest the Congress consider in order to improve the efficiency of the Commission?

Response:

As a Commissioner, Vice Chairman and Chairman, I have formed certain opinions about the effectiveness of the Commission. Please note that my views are my own and not necessarily those of the Commission. Congress created a collegial body of six Commissioners, one of whom is designated by the President to serve as Chairman for a two-year term (19 U.S.C. §1330(c)). The Chairman is given most management responsibilities under the statute, but certain key matters relating to the budget and termination of certain supervisory employees require approval of a majority of the Commissioners in office (19 U.S.C. §1331(a)(2)). The Chairman is also assigned significant administrative and other responsibilities under the provisions of 19 U.S.C. §1331(a)(1)(C), but can be overridden by a majority of Commissioners on virtually any matter.

This arrangement is well designed to ensure the Commission's independence from the Executive Branch, but I believe it tends to result in inefficient operation of the agency.

Management by committee is inherently inefficient. This problem is exacerbated by a bifurcated senior staff management structure comprised of a Director of Administration and a Director of Operations, both career appointments. Unlike almost all other federal agencies with which I am familiar, the Commission has no executive director or similar senior manager accountable only to the agency head. With the ever-present possibility of an override of any decision by the Chairman, staff at several levels tend to be drawn into negotiations among shifting coalitions of Commissioners if there is any disagreement about any issue, whether administrative or substantive. This makes it particularly difficult for a Chairman to overcome resistance to needed reforms during a short 2-year term.

Two recent outside evaluations of the Commission identified significant deficiencies in the Commission's operations. The fact that so many problems exist and obviously had been present for a long time suggests that the Commission's management structure is not providing sufficient oversight and accountability to assure effective and efficient operation.

I would recommend the following changes in order to improve the efficiency of the Commission:

The repeal of 19 U.S.C. §1331(a)(1)(C) to remove the provision giving the majority of the Commissioners the right to override the Chairman.

An amendment to 19 U.S.C. §1330(c)(2) to extend the term of future Chairmen from two to four years.

The establishment at the Commission of an Executive Director who would report to and serve at the pleasure of the Chairman.

Consideration should be given to giving future directors of administration and operations non-career status.

Staffing

Congress authorized an additional 20 positions for FY 1987 because at last year's hearing, ITC officials said they expected an increased caseload. However, there was a 10 percent decrease in the caseload (as shown on page 2 of the FY '88 Budget Justification). Also, as of February 14, 1987 only 461 personnel had been assigned to the 502 authorized positions resulting in a vacancy rate of 8%.

Question:

1. What is the rationale for asking for continued staffing at the 502 level when there was a declining caseload last year and the expected decrease in the trade deficit?

Response:

The Commission's FY 87 budget submission included an allocation of 482 full time positions. After the Commission had unanimously approved its FY 1988 budget with an allocation of 482 full time positions, Congress passed the FY 1987 appropriations bill which provided an additional 20 positions for the Commission. The Commission then amended its FY 1988 budget to provide for the additional 20 positions.

Question:

2. How has the 20 extra staff been allocated within the various organizations of ITC?

Response:

The additional 20 positions have been allocated as follows: 1 position to the office of the Secretary; 5 positions to the Office of the General Counsel; 1 position to the Office of the Administrative Law Judge; 1 position to the Office of Investigations; 2 positions to the Office of Economics; 2 positions to the Office of Data Systems; 6 positions to the Office of Industries; 1 position to the Office of the Director of Administration; and 1 position to the Office of Management Services.

Question:

3. What impact will the GAO report have on the assignment of personnel to unfilled positions?

Response:

All Commission positions were allocated previous to the issuance by GAO of their report, and changes are not being contemplated at this time. This allocation was made after careful consideration of Commission-wide requirements and is felt to meet the needs in both the mission areas and administrative areas. Moreover there is nothing in the GAO report to suggest that the problems they identified were due to a shortage of personnel.

Your budget justification (page 37) shows that the Commissioners and their personal assistants cost the government $3.3 million or 10 percent of the total ITC budget.

Question:

1. Do you really need 40 personal assistants for the Commissioners to manage an agency of 500 people with various office directors?

Response:

Each Commissioner is allocated four staff positions and the Chairman is allocated an additional two positions, for a total of 26 staff assistants. Most of these employees are not involved in managing the agency at all. Their time is primarily spent on analysis of the more than two hundred import relief and fact-finding investigations on which each Commissioner votes and writes memoranda and opinions each year. I have no doubt that each Commissioner needs four assistants (including a secretary) to carry out these statutory responsibilities. The Chairman is allocated two additional staff to help the Chairman carry out the additional responsibilities assigned to the Chairman by statutes and Commission rules. For a discussion of the need for two additional staff persons for the Chairman, please see my response to the next question.

In our budget justification we included under the heading of "Executive Direction" all the time of Commissioners, the Chairman and their staff assistants plus the time of other Commission staff providing support to the Commissioners' offices, including staff from the Secretary's Office, summer interns, the Presidential Management Intern, and staff from the General Counsel's Office.

Question:

2. Why does the Chairman need 2 extra positions to handle administrative functions when the ITC already has a Director of Administration with a full staff complement?

Response:

The Chairman has two additional staff positions to assist in carrying out additional responsibilities imposed on the Chairman by statutes and Commission rules.

The additional responsibilities of the Chairman include both general administrative direction of the agency and various duties related to the handling of investigations. These are not responsibilities of the Director of Administration. These responsibilities include functions like controlling the flow of action files through the Commission review process, handling the large flow of correspondence and other inquiries from the press, Congress and the public, and requests for speeches and testimony that are addressed to the agency head. In addition, the Chairman is responsible for formulating a budget (with the approval of a majority of Commissioners).

On the question of the need for staff in the Chairman's office to work on general administrative management, my own experience has left me convinced of the need for additional staff. Without his or her own staff capability, a Chairman or an agency head has no way of independently assessing the adequacy or effectiveness of established methods and procedures being followed by the career management staff. I found many things to question when I became Chairman of the ITC, and I believe my concerns have been borne out by the findings of the recent GAO report and a recent outside study of our contracting and procurement procedures.

I believe that if there is to be effective management at the Commission, future Chairmen should be given more than two additional staff or a position should be created for an Executive Director who is responsible to, and serves at the pleasure of, the Chairman.

Questions Submitted by Senator Inouye

Question:

In this time of record trade deficits, it is critical that the United States has accurate information on the nature of the international marketplace and the flow of our country's imports and exports. Does the ITC have all of the necessary tools for collecting these data, and are there any recommendations you wish to make on how Congress can facilitate the task we have set for you?

Response:

I believe that the Commission has the funding necessary to collect and access information on international markets and U.S. imports and exports. Our ability to access and manipulate trade-related databases has increased greatly in recent years and continues to improve as the Commission moves forward with automation.

To improve the data gathering process and the analysis of the data collected, I have instituted training courses for the staff in accounting, statistics, and financial analysis. I think that in-house training is an important step in solving the problems highlighted in a recent GAO report on the Commission's operations.

The GAO report identifies certain program weaknesses at the Commission. Among GAO's concerns is the lack of verification of data used in our investigations. The report pointed out that the "ITC does not make even occasional random spot-checks of company records as a way of guarding against getting self-serving industry data and of helping to assure the reliability of its reports." (GAO report, at 12.)

Commission determinations should be based on data that are as accurate and complete as possible, given the budget and statutory time constraints under which investigations must be conducted. Certainly not all data in the record can be verified. Nor need they be. But as the Internal Revenue Service has discovered, periodic, random checks of data go a long way toward ensuring veracity.

GAO also questioned whether data on which determinations are based are as complete as they could be. While the applicable law requires the Commission to base its determinations on the "best information available," lengthy and complex Commission questionnaires tend to discourage responses and limit the comparability of the data provided by different responden

Moreover, there is no real penalty for failure to respond to a questionnaire. This is in contrast to the procedures at the International Trade Administration of the Department of Commerce where failure to cooperate produces adverse results for the foreign firm engaging in such behavior. This has not been the practice at the ITC. As a result, biases are likely to be introduced in the data received.

Because the Commission has set no standards for determining acceptable response rates, the Commission has no way of knowing whether accurate determinations can be made based on the questionnaire data. A simple random sampling technique with periodically verified data from which statistically significant inferences could be drawn would be superior to a mass mailing and the "hope-everyone-will-respond" technique currently employed.

Given the time constraints facing the Commission in a preliminary dumping or countervailing duty investigation, it might not be possible to construct a valid statistical sample. On the other hand, there is nothing to prevent the Commission from utilizing sampling techniques in final investigations. To save time, Commission staff could begin defining the relevant sampling universe immediately after an affirmative preliminary determination by the Commission.

A random sampling approach is also likely to be more efficient, as well as potentially less costly to the Commission and less burdensome to industry than our current approach. While questionnaires are not the only source of data the Commission uses in its determinations, they are of sufficient importance in Title VII and escape clause investigations that the lack of standards poses an important problem.

I concur with the GAO that the Commission should institute a verification procedure to ensure the integrity of Commission data. In addition, I believe that it would improve the reliability of Commission data gathering if random sampling techniques were used in determining which firms to survey.

The views set forth in this response are my own and are set forth in my February 10, 1987 letter to GAO attached as Exhibit I. Other Commissioners have expressed their own views to GAO. I also enclose for your information the February 6, 1987 comment letter of Vice Chairman Brunsdale (Exhibit II) and the January 30, 1987 letter of Commissioners Eckes, Lodwick and Rohr (Exhibit III).

QUESTIONS SUBMITTED BY SENATOR SASSER

Pursuant to 19 U.S.C. §1331(a)(3), the views stated herein are those of Chairman Liebeler and not necessarily those of the U.S. International Trade Commission.

Question:

Chairwoman Liebeler, last year in the shoe industry's Section 201 case, you voted in favor of a finding of injury and then voted against any relief for the industry. One of the reasons you cited was that the relief requested would result in an added cost to consumers. Yet consumer cost is only one factor that the trade laws say should be considered -- not the determining factor.

My question to you is: Can you envision a case where the injury to an industry would outweigh cost to the consumer?

Response:

In Nonrubber Footwear, Inv. No. TA-201-55, USITC Pub. 1717 (July 1985), I found that increased imports were a substantial cause of the threat of serious injury to the domestic industry producing nonrubber footwear. I determined that no combination of tariffs and quotas would prevent or remedy the threat of injury. I did, however, recommend the provision of adjustment assistance. I noted in the opinion that section 201 does not allow the consideration by the Commission of added costs to consumers and that therefore I did not consider such costs in formulating my relief recommendation (p. 184 n.21; 200). My discussion of consumer costs was done in response to a standing request from the United States Trade Representative that the Commission provide information on consumer costs when we transmit our statutory findings.

Question:

Have you ever voted to recommend relief in a Section 201 case?

Response:

Since I joined the ITC in 1984, the Commission has conducted 11 Section 201 investigations. In seven of such cases the Commission majority reached negative injury determinations and, therefore, there was no opportunity to make any relief recommendations. In the four cases in which the Commission majority made affirmative injury recommendations, I recommended relief in one. I recommended adjustment assistance in the Nonrubber Footwear investigation, as provided for in the statute (19 U.S.C. §2251(d)(1)(B)). Please see my response to the previous question.

Question:

You have often said that you believe that a showing of predatory pricing is necessary in order to justify an affirmative finding under Title VII of the 1974 Trade Act. As justification, you cite a portion of the legislative history of a predecessor statute to Title VII as justification for your view that only predatory pricing can cause injury within the meaning of Title VII, even though that legislative history does not mention predatory pricing.

Are you aware of anything in the language of Title VII itself, or its legislative history that supports your view that a showing of predatory pricing is required to justify an affirmative injury finding under Title VII?

Response:

Sometimes in explaining my causation analysis, I have drawn an analogy to the facts one would expect to find if predatory pricing were present. The statute refers to price undercutting (19 U.S.C. §1677(C)(ii)(I)). Many Commissioners interpret this to require a simple comparison of domestic and foreign transaction prices. I believe such comparisons may be misleading. There may be many reasons for price differentials, including differences in the quality of a product or associated services. Thus, I have rejected this interpretation. Price undercutting is like predatory pricing--a firm lowers its prices to drive out competitors to gain market power. I have, however, made affirmative determinations in cases where there has been no showing of predatory pricing, and I do not require a showing of predation in order to reach an affirmative determination.

Question:

Are you aware of any other Commissioner who has agreed with your view that a showing of predatory pricing is necessary to justify an affirmative injury finding?

Response:

I have voted affirmatively in Title VII cases when there has been no showing of predatory pricing. Please see my response to the previous question.

Questions Submitted by Senator Rudman

Question:

Under section 201 of the Trade Act, the Commission investigates whether domestic industries may be eligible for import relief if increased imports are a substantial cause of serious injury. Based on these investigations, the Commission makes recommendations to the President as to the form import relief should take. In 13 cases since 1976 the President has taken no action on recommendations for import quotas, tariff increases, or import duties. Based on that track record, do you believe that the Congress should mandate relief recommended by the ITC in section 201 cases?

Response:

The Commission takes no position on whether the President should be required to impose the relief recommended by the Commission in section 201 cases. The Commission, as an independent agency, does not take positions on policy issues. I note, however, that the responsibilities of the Commission and the President under present law with respect to relief are different. The Commission's task is to find the amount of relief "necessary to prevent or remedy" serious injury to the domestic industry, without regard to the effect of such relief on other industries or on consumers. The President, however, in determining whether to provide relief and in what method and amount, is required to take into account the effect of relief on consumers, international obligations with respect to compensation, and economic and social costs that would be incurred if relief were or were not provided. The President may also consider other factors, such as the effect of relief on national defense. The Commission is not allowed to take into account any of these considerations. Thus the fact that the President's decision in 201 cases does not follow the Commission's relief recommendation is not in itself a symptom of a problem. Congress could require that import relief recommended by the Commission must be given regardless of the impact on other domestic industries, on consumers or on national defense; alternatively, it could require the Commission to take these costs into account in its relief recommendation.

Question:

Chairman Liebeler, you've only been at the Commission since last summer, so we don't intend to hold you accountable for the sins of your predecessors. However, the General Accounting Office has just issued a report that is very critical of the programmatic and administrative practices of the ITC. Among other things the study found that--

--the Commission has done a poor job of protecting secret government documents and confidential business records;
--the Commission has not been consistently complying with Federal procurement regulations;
--there are little or no property management procedures;
--there have been no regular internal or external audits of financial and program activities.

Do you agree with the findings of the GAO? How do you intend to respond to them? Should the Congress continue to provide the Commission with funds for furniture, automated office equipment, and other ADP equipment absent the implementation of a system of property management?

Response:

In my February 10, 1987 letter to GAO commenting on their draft report, I said that I concurred with most of their findings and made a firm commitment to address them. A copy of this letter is attached as Exhibit I for your information. I also enclose for your information the comment letters of Vice Chairman Brunsdale (Exhibit II) and Commissioners Eckes, Lodwick and Rohr (Exhibit III).

During my tenure at the ITC, I observed certain weaknesses in the programs and operations of the Commission. When I became Chairman, on June 17, 1986, I immediately began to address a number of them. I was concerned about several areas of Commission operations, including contracting and procurement, ADP operations, information resource planning, and property management. I also was very concerned about the lack of an audit program.

Lack of an Auditing Function

One of my first initiatives as Chairman was to seek a full audit of the agency's financial statements and accounting system, its procurement and contracting function, Automated Data Processing (ADP) operations, and the property management system. It was clear to me an audit was needed on the grounds of good management practice. (Indeed, one had been promised by previous Chairmen in response to a recommendation by GAO in 1983.)

Efforts to have all these areas audited promptly met resistance at the staff level and among the Commissioners. Pursuant to 19 U.S.C. §1331(a)(1)(C) my original request for audit services was overridden by a majority of the Commissioners who did not agree on the nature of the problems in, or the need to audit immediately ADP operations, contracting and procurement or property management. After lengthy internal negotiations, the Commission, through a competitive bid process, signed an audit contract with Arthur Andersen on January 7, 1987 for three years of audit services. Because three Commissioners continue to urge that critical parts of the audit should be spread over a three-year period, the auditors have only been asked to audit the Commission's accounting and financial systems. Thus, the timing and scope of the remaining audits remains uncertain.

National Security Documents and Confidential Business Information

One of the important aspects of the GAO Report is its concern for the security of classified documents and confidential business information (CBI) entrusted to the ITC. In bringing the national security information (NSI) and CBI problems into public light GAO has caused us to renew our efforts to strengthen our information security procedures.

The Commission has taken steps to correct the problem. I immediately ordered the creation of the Information Security Committee called for in ITC Directive 1350. That Committee was formed and has already developed a draft of a comprehensive remedial plan for addressing the weaknesses identified by GAO and for certain other problems. For example, the Committee is also overseeing the development of back-up procedures for our automated data processing system, the lack of which was identified as a material weakness in my FY 1986 certification to the President under the Federal Financial Managers' Integrity Act.

I also intend to propose an audit of our security system performed before the end of the calendar year to assess the success of the security program and identify any continued weaknesses.

Contracting and Procurement

Because of my concerns with the agency's procurement process, I initiated a comprehensive review of our Contracts and Procurement Division. My concerns were confirmed by an independent procurement expert in a December 18, 1986 report, "Final Report-Review of the Contracting and Procurement Division and the Procurement Process Within the U.S. International Trade Commission," a copy of which is attached as Exhibit IV. One of the deficiencies identified was that the agency had on numerous occasions not complied with Federal Acquisition Regulations.

The GAO report noted the findings of this report. I have asked the Director of Administration to develop a timetable and plan for dealing with the deficiencies identified in these two reports. On

February 2, 1987, I received a preliminary response from the Director and will be working with him to develop a final plan. I will ask our outside auditors to examine this area carefully.

Absence of Property Management Procedures

I am trying to ensure that the Commission has in place an adequate property management system to handle the planned relocation and the acquisition of office automation equipment. The Commission has taken the following steps to improve its property management system and respond to the problems identified in the GAO Report:

* A contractor has been selected to help design policies and draft procedures for property management and we expect to have them completed by the end of April.

* A property management software system has recently been installed. Current acquisitions are being included, and cost data is being incorporated into the general ledger under the guidance of our auditor, Arthur Andersen. Records are being searched for cost data on prior purchases. Where no records are available, original cost figures are being estimated using GSA schedules and other similar sources.

* A separate data processing system is in place for office furniture since such purchases generally fall below the $5,000 mark set up by GSA for inclusion separately in the general ledger. These files are being transferred to the property management software system. Bar coding of furniture and equipment will be underway shortly for monitoring and control. In the meantime, all furniture and equipment have been charged to managers who are being held accountable for safeguarding the assets.

* Within the next few months I intend to initiate and audit of the property management system. The audit should assess the adequacy and implementation of the new policies and written procedures and control measures and check for evidence of waste, fraud or abuse.

Finally, I have also taken steps to assure proper safeguarding of confidential business information (CBI). We handle a much larger volume of CBI than we do of NSI, and CBI--principally company data gathered by questionnaire during our investigations--is much more important to our agency mission. I initiated an internal review of our questionnaire data processing as soon as I became Chairman. As a result, some additional measures to assure security of CBI were implemented last fall. The new Information Security Committee will also address other CBI issues identified by the GAO report.

The Commissioners and the staff are committed to protecting the security of information given the Commission. The final public report indicated that GAO was not aware of any instance in which confidential business information has been released. We intend to ensure that this remains the case.

EXHIBIT I

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

February 10, 1987

The Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Re: Draft of a Proposed Report On Observations on the Operations of the International Trade Commission

Dear Mr. Bowsher:

Thank you very much for providing an opportunity to comment on GAO's January 1987 draft report "Observations on the Operations of the International Trade Commission" (Draft Report).

The International Trade Commission plays an increasingly important role in providing the legislative and the executive branches with information and analysis in connection with their making of trade policy. In this and in its role as a decision-maker in import relief cases, the Commission must use great care to maintain the confidence of the Congress, the Executive Branch and the parties who appear before the Commission. Thus, the GAO evaluation of our operations is a welcome endeavor and provides the Commission with an opportunity to improve the quality of its programs and administration.

During my tenure at the ITC, I have observed certain weaknesses in the programs and operations of the Commission. When I became Chairman, I immediately began to address a number of these problems. The GAO review complements these initiatives and provides many excellent suggestions for improving the Commission's statutory investigations and administrative functions. As you note, while some progress has been made in addressing certain problems, much remains to be done. I applaud the work of the team that conducted your review and prepared the report. I agree with most of the findings and make a firm commitment to address them. I do, however, have questions and comments concerning some of the findings.

I. CASELOAD

The caseload figures used in the Draft Report show an increase in the number of open cases from 146 in FY 1981 to 338 in FY 1985. A better indicator of the trend in Commission caseload may be the number of cases instituted during the fiscal year. According to the Commission's FY 1988 budget justification submission (at p. 9), a copy of which is attached, in FY 1982 the Commission initiated 292 statutory investigations. In FY 1985, this number was 239, and in FY 1986 it was 214. Thus, the caseload seems to have leveled off.

II. ANTIDUMPING, COUNTERVAILING DUTY AND ESCAPE CLAUSE INVESTIGATIONS

As a preliminary matter I note that the comments at page 2 and again at page 11 of the draft report, are applicable to Title VII (antidumping and countervailing duty) and escape clause (19 U.S.C. §2251) investigations and not to investigations under Section 337 of the Tariff Act of 1930 (19 U.S.C. §1337). You may wish to make this clear in your final report.

A. Verification

In deciding claims under Title VII and the escape clause that imports are injuring U.S. industries, the ITC has the potential to impose costs on consumers as well as to provide benefit to U.S. businesses that qualify for relief under the law. The draft report is critical of the fact that these decisions rely heavily on unverified and incomplete data. This has been of concern to me during my tenure on the Commission.

Because of the importance of these determinations, they should be based on data that are as accurate and complete as possible, given the budget and statutory time constraints under which these investigations must be conducted. Certainly not all data in the record can be verified. Nor need they be. But as the Internal Revenue Service has discovered, periodic, random checks of data go a long way toward ensuring veracity.

Verification of data is especially important at the Commission because most of the information gathered in our investigations is not subjected to the adversarial process. It is classified as business confidential and, for the most part, not available to the other parties. (The Commission does, in Title VII investigations, release some limited confidential business information relating to domestic prices and cost of production under protective order to "interested parties.") The only opportunity for opposing counsel to obtain access to the entire record, however, is on appeal and under a protective order. At this time factual errors can be brought to the attention of the reviewing court which must then decide whether any such errors are significant enough to constitute reversible error. Because the court's review is not de novo, parties asserting factual errors bear a heavy burden. Under the standard of review at the Court of International Trade, the court might properly consider

many errors harmless that conceivably might have changed the outcome at the Commission had they been discovered earlier.

In addition, the Commission does not utilize one of the most important methods available for ensuring the accurateness or completeness of the record - discovery. Thus I wholeheartedly support your recommendation that the ITC should use random spot checks of company records to guard against self-serving industry data and to help ensure the reliability of ITC reports.

B. Responses to Questionnaires

In addition to noting its uncertainty about the quality of the data submitted to the Commission, GAO correctly questions whether data on which determinations are based are as complete as they could be. While the applicable law requires the Commission to base its determinations on the "best information available," lengthy and complex Commission questionnaires tend to discourage responses and limit the comparability of the data provided by different respondents.

Moreover, there is no real penalty for failure to respond to a questionnaire. This is in contrast to the procedures at the International Trade Administration of the Department of Commerce where failure to cooperate produces adverse results for the foreign firm engaging in such behavior. This has not been the practice at the ITC. As a result, biases are likely to be introduced in the data received.

In my opinion on Certain Welded Carbon Steel Pipes and Tubes from Brazil and Spain, Inv. No. 701-TA-220 (Preliminary), USITC Pub. 1569 (August 1984), I noted that because the Commission does not impose any sanctions on those who do not respond to questionnaires, the Commission may receive responses only from those firms in the worst financial condition. See also Metal Castings, TA-201-58, n. 136 (1986). Therefore, the information on which the Commission bases its determination may be biased.

While some ITC Commissioners have occasionally drawn adverse inferences against domestic industries that failed to respond to Commission questionnaires, (See, e.g., Weighing Machinery and Scales from Japan, Inv. No. 701-TA-7 (Final), USITC Pub. 1063 (1980) (Additional Views of Vice Chairman Alberger and Commissioner Calhoun); Certain Tomato Products from Greece, Inv. No. 104-TAA-23, USITC Pub. 1594 (Oct. 1984)), this option never became standard procedure.

Because the Commission has set no standards for determining acceptable response rates, the Commission has no way of knowing whether accurate determinations can be made based on the questionnaire data. A simple random sampling technique with periodically verified data from which statistically significant inferences could be drawn would be superior to a mass mailing and the "hope-everyone-will-respond" technique currently employed.

Given the time constraints facing the Commission in a preliminary dumping or countervailing duty investigation, it might not be possible to construct a valid statistical sample. On the other hand, there is nothing to prevent the Commission from utilizing sampling techniques in final investigations. To save time, Commission staff could begin defining the relevant sampling universe immediately after an affirmative preliminary determination by the Commission.

A random sampling approach is also likely to be more efficient, as well as potentially less costly to the Commission and less burdensome to industry than our current approach. While questionnaires are not the only source of data the Commission uses in its determinations, they are of sufficient importance in Title VII and escape clause investigations that the lack of standards poses an important problem.

C. Format of Staff Reports

I concur with GAO's recommendation that investigative reports should describe the scope of the study, the methodology used and the limitations on the data, and should contain a concise summary of the arguments supporting and refuting the arguments of petitioner. Such information is standard in analytical reports and would be helpful to me as a decision-maker.

It is also important that summaries discuss how conflicts in the data were resolved by the staff. Although Commission staff apparently consider summaries inappropriate on the ground that the Commissioners want to decide for themselves what data are important (p. 18, GAO Draft Report), they do not necessarily tell the Commission when and how they resolved conflicts in the data. For example, prior to the Commission vote on Acetylsalicylic Acid from Turkey, Inv. 701-TA-283 and 731-TA-364 (Preliminary) (December 10, 1986), staff indicated that when conflicting data are gathered the staff resolves the conflict before submitting the report:

> Supervisory Investigator: [F]rom the Office of Investigations, we are responsible for getting a staff report to you that includes the best information that we have. That's why we have a senior review process, and we are very reluctant to send you conflicting data in the staff report. It just creates a number of problems for you that it should not. I mean, it should be our job to get you a clean, at least generally acceptable to everyone, report.
>
> Chairman Liebeler: I don't mind seeing conflicting arguments and analysis. In fact, I find it useful.

Transcript, at 13-14.

I find the practice of homogenizing data prior to submitting it to the Commission troubling and in contradiction to the claim that the staff provides raw data for the Commission to digest.

Finally, it is noteworthy that the international trade bar has shown a growing interest in the methodology utilized by the Commission. See, e.g., Easton, The Commission's Injury Investigation: Opportunities for More Effective Judicial Review; Horlick & Landers, The Court of International Trade's Standard for Review of the International Trade Commission's Injury Determinations (both papers presented at the Third Annual Judicial Conference of the United States Court of International Trade (NY October 24, 1986)). With support from the trade bar and the findings in your report, the Commission should be able to improve the quality of the data on which it bases its decisions.

III. ADMINISTRATIVE ISSUES

A. Audit

In my tenure at the ITC, I have observed a number of problems in the administrative area. The most pressing of these was the lack of an audit program at the agency. One of my first initiatives as Chairman was to seek a full audit of the agency's financial statements and accounting system, its procurement and contracting function, the Automated Data Processing (ADP) operations, and the property management system. It was clear to me an audit was needed simply on the grounds of good management practice. (Indeed, one had been promised by previous Chairmen in response to a recommendation by GAO three years prior to my taking over as Chairman.) In other areas, such as procurement, ADP and property management, there are problems that require comprehensive management reviews. I enclose for your information a copy of my September 17, 1986 memorandum to the Commission in which I discuss some of these problems.

Efforts to have all these areas audited promptly have met resistance at the staff level and among the Commissioners. Three Commissioners continue to urge that critical parts of the audit should be spread over a three-year period. Thus, the timing and scope of the remaining audits remains uncertain.

If not impeded, efforts currently underway or beginning shortly in all these areas should, with proper monitoring, prove sufficient to address the administrative problems that have been identified in your report.

B. Contracting and Procurement

Your draft report identifies procurement as an area with internal administrative control weaknesses. In response to the "Final Report-Review of the Contracting and Procurement Division and the Procurement Process within the U.S. International Trade Commission" by Solly Thomas ("Final Procurement Report"), I asked the Director of Administration to develop a timetable and plan for dealing with the deficiencies identified in the Final Procurement Report. On February 2, 1987, I received a preliminary response from the Director and will be working with him to develop a final plan. In addition, as I have already advised the Commission, I will ask our outside auditors to examine this area carefully.

C. National Security Documents and Confidential Business Information

One of the important aspects of the Draft Report is its concern for the security of classified documents and confidential business information (CBI) entrusted to the ITC. By bringing the national security information (NSI) and CBI problems into public light you will cause us to renew our efforts to strengthen our information security procedures. I promise my diligent attention to the matter. Steps are being taken to form an Information Security Committee called for in the 1984 ITC Directive 1350. I also will seek a review later in this year to make sure that the proper steps have been taken to correct current deficiencies. For your information I enclose a copy of my February 10, 1986 memorandum to the Director of Administration instructing him to set up an Information System Security Committee by February 16, 1987. The Committee will submit its preliminary plan by March 16, 1987.

The Commissioners and the staff are committed to protecting the security of information given the Commission. In order to preserve public confidence in the Commission's ability to protect confidential business information, it would be helpful for you to state in your final public report, as you have indicated to me, that you are not aware of any instance in which confidential business information has been released.

D. Recurring Reports and User Fees

I am encouraged by GAO's support for reducing the number of recurring reports the ITC currently provides. Our legislative liaison has begun working with the Commission staff in an effort to identify instances where consolidation or less frequent reporting might be appropriate. The results of this effort will be discussed with the Commission and, where appropriate, with government entities that requested or required the reports.

The Commission will, of course, continue to provide reports at no charge to Congress, the Executive Branch, and other agencies. The Commission does, however, incur considerable additional printing, mailing and distribution costs by giving many hundreds of copies to other requestors outside the government. I support user fees as provided for under 31 U.S.C. §9701. User fees would provide information about demand for the goods and services being supplied, information that cannot be inferred when the product is provided free of charge. Print runs should be continued for publications whose demand holds up when fees are charged, but publications whose demand drops precipitously or disappears when faced with a user fee should be re-evaluated. Such a policy would allow agency resources to be devoted to more productive uses. I support the creation of a user fee program as part of our overall effort to streamline our recurring reports and will attempt to have the Commission institute such a program.

E. Lunch Hours

Please be assured that I am committed to obeying applicable laws and regulations regarding lunch hours. I enclose a copy of my February 6, 1987 memorandum to office heads asking their support and cooperation in enforcing them.

F. Overtime

Thank you for calling attention to the amount of overtime recorded for the Office of Management Services. I will ask our outside auditors to review this matter.

IV. INFORMATION RESOURCES MANAGEMENT

I agree that the Commission's planning for and management of information resources has not kept up with the increasing technical requirements for this critical area. This was one of the reasons why I reorganized our Information Systems Planning Committee (ISPC) and gave it new responsibilities last summer. The old committee had three members, including the Directors of Administration and Operations, neither of whom has much expertise or experience with office automation, ADP or information resources. In addition, one has substantial stock ownership in a major computer company and is thus unable to participate in planning or procurement.

The reorganized ISPC has new members and responsibilities. Although the new committee has been in existence for only six months, it has made considerable progress, particularly in controlling and documenting information systems procurement, setting agency standards and policies, and planning for modernization of our aging office automation systems. The following information resource management activities have been undertaken by the ISPC:

1. Developed, cleared with senior staff and Chairman, and implemented policy directive on PC-based word-processing standards, training and responsibilities at the ITC.

2. Developed, cleared with senior staff, and submitted to Chairman procedures for management review, approval, and processing of information systems hardware, software and services requirements and requests.

3. Analyzed American Management System's architecture options report, and identified the need for additional information to proceed with final choice. At the same time, prepared a tentative procurement plan for new office automation system with two phases of procurement.

4. Identified and initiated pilot test of LAN systems.

5. Identified and initiated survey of managers' views on the American Management System report options, and information needed to refine the recommendations.

6. Reviewed and provided detailed comments on the records management study.

7. Initiated pilot test of electronic mail using PROFS.

8. Developed and implemented tracking system for information systems procurement actions.

9. Implemented policy of management review and justification of all information systems purchases.

10. Developed emergency needs procurement of PC and related hardware and software.

11. Initiated pilot test of lap top computers.

12. Implemented a policy of regular communication with office directors on the status of their information systems needs.

13. Reviewed and provided detailed comments on American Management System's data and telecommunications wiring study for the new building.

14. Began preparations for supporting documentation for recommendation to procure replacement office automation systems.

Although we have made considerable progress, we still have a lot to do on long-range planning, both in the ADP area and other IRM areas, such as telecommunications and records management.

I also agree that fragmentation of our IRM structure has been a problem for several years and that our current system is only appropriate as an interim solution. The current IRM officer has little expertise in information resources and a potential conflict of interest that precludes his participation on the ISPC. In light of your report and your comments, I intend to consider and discuss with the Commission several options for modifying our organization in order to satisfy regulatory requirements and to increase the effectiveness of our management of information resources. These include changing the IRM officer to someone with more experience and expertise in information resources or consolidating all IRM activities under a new Director with such qualifications.

The Commission's analysis of its requirements for a new office automation system is, as you know, still in progress. We have not decided what ADP equipment we will purchase, or how much. I assure you that we will work closely with GSA to prepare all appropriate documentation before any decision is made to acquire ADP equipment or services.

At our February 2, 1987 meeting I shared with you the enclosed comments of Dr. Suomela, the Chairman of the ISPC. I concur with these comments; they are attached to my letter as Exhibit "A" and incorporated herein by reference.

V. CONCLUSION

I hope these comments are helpful to you. In reviewing them, please note that like the views of other Commissioners, pursuant to 19 U.S.C. §1331(a)(3), my comments represent my own views and not those of the Commission.

Thank you very much for your hard work and constructive criticism. Your survey has identified several important opportunities for improving the agency's operations. As you request, I will be pleased to keep you informed of all actions taken on the matters discussed in the report. If you have any additional questions, please do not hesitate to contact me.

Sincerely,

Susan Liebeler

Susan Liebeler
Chairman

SL:ma

Enclosures

ITC's INFORMATION RESOURCES MANAGEMENT

p. 37: "Each program and administrative office independently identifies and provides information resources to its user without adequate consideration of how it will impact on the overall agency or on other organizational units."

One of the primary roles of the ISPC is to coordinate IRM planning and procurement. Because there is a need to consider how every purchase will affect other organizational units and the overall agency, the ISPC reviews all purchase requests and coordinates purchases among all offices. In addition, a new series of directives has been started to provide broad guidance on overall Commission IRM policy. The first such directive established standards for word-processing software. The second directive has been reviewed by all of the senior staff and needs only the review and approval of the Chairman, ITC. It will formalize procedures that are already in place for handling Information Systems (IS) procurement requests. This directive includes the following statement:

> In evaluating a procurement request, the ISPC will consider whether it meets the following criteria:
>
> a. The specific proposal appears to be the lowest-cost solution that adequately meets the requirements of the requestor and the USITC;
>
> b. The cost of the proposed project is adequately justified by the benefits anticipated;
>
> c. The proposal is consistent with overall policies and plans for USITC information systems; and,
>
> d. The appropriate cost-center manager has determined that funds are available.
>
> Requests for IS procurement must include as much of this information as possible. Requests that are not related to an approved fiscal year expenditure plan or a long-range information systems plan will receive close review by the ADP cost center manager and the ISPC.

p. 38: "Although ISPC's charter limits its activities to planning of information systems, it has gone beyond this authority and has become involved in directing and controlling the acquisition of ADP equipment and related software."

The ISPC's charter is contained not just in in Administrative Order 86-08, Information Systems Planning Committee (ISPC)--Membership and Functions, dated

July 22, 1986, but also in an August 13, 1986, memorandum to the ISPC, in which the Chairman gave the ISPC the authority to review and approve all IS projects. The time spent by the ISPC in directing and controlling the acquisition of ADP equipment and related software is directed by this charter. Actually, no time is spent by the ISPC on routine purchases of supplies and materials. Other purchases are reviewed to see they meet the criteria in paragraph 8 of ITC Directive 7101.

p. 39: "ITC's planning process is limited to an annual compilation of individual office's estimated requirements for equipment and systems as part of the bueget process. The ISPC has concentrated on the acquisition and software and has not developed an overall IRM plan.

"Without the benefit of a comprehensive plan, ITC does not have reasonable assurance of what information technology will meet users' needs."

The current ISPC has been in existance for only six months. While it is true that the previous ISPC did not develop long-range plans, the current ISPC has been actively involved in developing an overall plan. The GAO study documents this planning activity on page 40 where they state that there are at least five studies under way or anticipated.

MICROCOMPUTER ACQUISITION PROCEEDING WITHOUT COMPLETE ANALYSIS

p. 39-40: "The ITC intends to issue a request for proposals in February 1987 to acquire up to 300 microcomputers. However, ITC has not completed plans for meeting overall word processing and data processing requirements."

It is not true that the ITC intends to issue a request for proposals in February 1987 to acquire up to 300 microcomputers. It is true that the ISPC plans to ask the Chairman, ITC, to approve a procurement of microcomputers. The number of microcomputers and the date of the request have not been decided on. The February date is an internal target date for having an RFP drafted and the numbers we are working with range from 50 to 300. It is clear that 50 is too low, because office directors have identified immediate needs for over 100 micros. It also appears that 300 is too high. But, as I stated, both 50

and 300 are arbitrary numbers, giving us a range of numbers to work with before an RFP is issued.

The ISPC is not planning to ask the Chairman to approve the draft RFP until the necessary analysis is completed of requirements, alternative approaches, and cost benefits, as required under the FIRMR. Most of the documentation required under the FIRMR have already been completed but apparantly was completed after the GAO began its study. The missing parts are now being developed.

On page 40, the report lists five studies they claim are necessary and will not be completed by the time the RFP is issued. Here are my comments on each of their points: (1) Despite their assertion, the pilot tests of the local area networks will be completed. (2) Electronic mail and calendaring on the ITC mainframe is a very low priority item. Electronic mail would be nice to have but is hardly anything that would affect any purchase decision. Furthermore, whether we can get it to work on the mainframe would have even less effect on any immediate equipment purchase. (3) As the GAO report states, the ISPC will conduct an evaluation of minicomputers in office-automation environments at other agencies or vendor installations. We are aware that our current purchases of microcomputers and any future purchase of a minicomputer(s) are related. That is one reason we have been working with a range of numbers for our next purchase of microcomputers. Our next purchase of microcomputers will be restricted to ensure that we do not overbuy micro's. We will ensure that we can get some micro computers now and either more micro's or mini's later, whichever we find will better suit our needs. According to the AMS study, the cost of either configuration is about the same, and in either configuration a large number of microcomputers will be necessary. (4) The GSA study of ITC's records management will not be completed until this summer. This study might have some effect on whether the ITC should decide on a minicomputer to handle the IS needs of the General Council's Office. Again, this study will have no effect on the initial purchase of microcomputers. (5) The anticipated study of data processing requirements will be needed within the next three to five years to help us

decide what we should do when the ITC in-house computer becomes obsolete or worn out.

p. 41: "users of automated systems in several offices expressed concern regarding the ability of microcomputers to meet their specific word processing requirements. Other ITC officials challenge the ability of microcomputers to adequately meet their data processing needs when large data bases and sophisticated computations are involved."

Micro's are not intended to meet data processing needs when large data bases and sophisticated computations are involved. For such data processing needs, the ITC will continue to use the facilities at NIH and the in-house minimainframe. But micro's can satisfy a very large part of our unfulfilled data processing needs when small data bases are used, which includes most of our work. Because using the in-house computer or the facilities at NIH require some sophistication, staff at the ITC has failed to automate many routine calculations. This has become obvious wherever micro's have been provided. Many new applications have been developed that would not have been developed if the microcomputers were not available.

It is generally accepted that word processing is not as easy to learn on a microcomputer as on a dedicated word processor. But the differences are small. Furthermore, the ITC standard PC-based word-processing packages are more powerful than the WANG word processors we are now using. For anyone who must do both word processing and some data processing, a microcomputer allows them to do both at one keyboard. Many (perhaps most) professionals at the ITC and many of the clerical staff do both word processing and some data processing. For them, microcomputers are the obvious best choice. This is true regardless whether the micro's are configured in LAN's, whether electronic mail is ever a part of ITC office systems, or whether minicomputers become part of the office configuration. It is also independent of the

EXHIBIT II

VICE CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

February 6, 1987

The Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

This letter responds to your request for comments on the General Accounting Office's draft report on the International Trade Commission. The views expressed are, of course, my own and not the views of the Commission.

On the whole your report contains many valuable suggestions for improvements which can and should be made to Commission operations. Specifically, I am substantially in agreement with your conclusions on Commission investigations and on the data gathered and produced by staff in support of Commisssion proceedings. I also share your concerns regarding administration and information resources management. I therefore welcome suggestions that will lead to greater effectiveness in those areas. I am offering these comments less to take issue with the report's conclusions than to suggest a number of areas in which your analysis would benefit from a deeper consideration of the background and recent history of the problems the report identifies.

ADMINISTRATION AND INFORMATION RESOURCES MANAGEMENT

In my view, it is likely that some degree of administrative inefficiency will always exist at the ITC as a result of the leadership structure chosen by Congress for the Commission. As you are aware, the chairman serves only a single two-year term, and virtually all of the chairman's administrative decisions can be overridden by a Commission majority. While this structure serves many laudatory goals intended by Congress, it does not lead to clarity and continuity at the highest levels of the agency's chain of command.

Thus, it is not surprising that your investigators found a fairly consistent pattern of sluggishness in addressing problems that were identified several years ago by GAO and others. Noteworthy among those problem areas were financial and program audits (page 8), confidential business information (page 26), property management (page 31), and cash count procedures (page 34).

Your report is helpful in that it not only recommends specific actions but also takes account of worthy improvements made in recent

months. For example, it acknowledges that a financial accounting firm has finally been retained to perform an extensive audit of ITC operations. Although GAO called for an audit in 1983, it was not until last fall, as a result of Chairman Liebeler's urging, that the Commission as a whole agreed that the audit should occur. Your draft report also acknowledges that a significant study of the Commission's procurement activities was recently completed. The idea for the study and the selection of the procurement expert to do the work also came from the Chairman's office.

In response to your discussion of IRM, let me make only two comments. First, the Information Systems Planning Committee (ISPC) was reorganized six months ago precisely to remedy IRM problems like those identified in the draft report. Second, the Director of Operations is not a member of the ISPC, but his automated data processing and office automation responsibilities have been delegated to the Director of Data Systems, who is a member of the ISPC. In any event, the present committee membership avoids a potential conflict of interest that might otherwise exist.

The GAO's criticisms of the handling of national security and confidential business information should receive prompt attention. However, since I do not know of any instance of public disclosure of national security or confidential business information that has occurred in the year I have been at the Commission, it may be that the report gives this issue somewhat more attention than it deserves. I am confident that closer adherence to the Commission's directives in this area will ensure that the Commission's exemplary record will continue.

PROGRAMMATIC ACTIVITIES

I welcome your useful suggestions about the completeness and verification of the questionnaire data obtained by the Commission in its investigations and about the inclusion of analytical summaries in staff investigative reports. However, I believe it would also be appropriate for you to address another problem that may be even more serious: the fact that the sampling procedure used in some investigations may produce biased results.

Let me take the last of these problems first. The Commission does not use modern statistical sampling techniques in Title VII and escape clause investigations. As a consequence the data underlying its determinations on the condition of the domestic industry may not be representative of that industry. This issue arises in investigations that involve a large number of domestic firms. In such cases sampling is needed because the cost of surveying all of the firms is prohibitive. Typically, the Commission compiles its sample by constructing a list that invariably includes all of the names of the domestic producers furnished by petitioners, along with others selected by staff. (Memo from Director of Investigations on Certain Fresh Cut Flowers, INV-K-006, Jan. 28, 1987, p. 4.) In addition, it does not always include in the list every sector of the domestic industry. For instance, all firms below a certain size may not be surveyed, even though staff suspects that they dominate the domestic industry. (Ibid, p. 6 note 12.) These practices have evolved over a long period of time and result from pragmatic decisions to have a manageable number of questionnaires and to secure adequate and timely responses. As a result of the practices, a systematic bias of unknown magnitude may creep into questionnaire data.

As to the draft report's concern about incomplete data, I agree that part of the problem may be caused by poor design of at least parts of the Commission's questionnaires. But another cause that should be considered is the general perception that the Commission's

data requests have no teeth. That is, the Commission rarely uses its subpoena power to secure responses to its questionnaires. One reason for this is, of course, that the statutory periods governing Commission investigations allow little time to litigate disputes regarding incomplete responses to Commission subpoenas. Whatever the reason, the problems of incomplete data are exacerbated.

I also concur with your conclusion that inadequate verification of data is a serious concern. It is my understanding that over the past year verification work has been cursory at best. This situation results partly from the Commission's heavy caseload and partly from the view that verification of the information supplied in response to questionnaires is simply unnecessary. I strongly disagree with the view that verification is unnecessary and believe the Commission should acquire the skills necessary for effective data verification. The potential harm caused by erroneous Commission rulings is too serious to accept an uncritical attitude toward the veracity of the data on which those rulings are issued.

The problem of incomplete, unverified, and possibly biased data is particularly serious because interested parties to Commission investigations and their counsel typically do not have access to signifigant portions of the data on which the Commission actually bases its decisions. At the ITC, interested parties generally have to advocate their positions without seeing the large amount of business data treated as "Confidential" under controlling statutes, regulations, and Commission practices, a situation most unlike that in the typical civil judicial proceeding where the evidence presented to the trier of fact is subjected to the test of fire by the opposing parties. As a consequence, interested parties before the ITC have little opportunity to bring to the Commission's attention errors in staff data that might have been readily apparent to the parties because of their knowledge of the industy under investigation.

The draft report notes that the Commission's investigative reports contain neither a summary nor an explanation of the methodology and data limitations of the investigation. Both would be tremendously helpful in sorting through and organizing the masses of data--some relevant, some not--that now appear in our reports. Your final draft might also note that our investigative reports contain essentially no analysis. The present approach is like scattering on the floor hundreds of pieces from several different puzzles. Lacking a summary or even rudimentary analysis, the investigative report is of little help in putting the pieces together.

It has been argued that the commissioners would not continue to render independent decisions if the staff began to present rudimentary analysis of the data it gathers. I disagree. Clearly, each commissioner would still need--and wish--to decide the relative importance of each major section of the puzzle and to provide an overall assessment of the picture emerging from the puzzle. By way of further analogy, it should be observed that it is extremely unusual for a judge or jury to be compelled to decide the merits of a civil lawsuit involving complex financial, production, and other business information without the benefit of the analysis and opinion testimony of expert witnesses. In such cases the experts' analyses are considered valuable aids to the trier of fact in reaching an informed decision, not substitutes for the trier of fact's independent judgment. So, too, the Commission could benefit from the informed analysis of its own experts.

Thank you for the care with which GAO has undertaken this project. I have not attempted to respond to all of your comments and suggestions, but rather simply to offer my observations where I thought they would be most useful. Please do not take my silence on

any matter to mean that I disagree with the conclusions you reached after your careful analysis. If I can be of further assistance to you in this matter please do not hesitate to call.

Sincerely,

Anne Brunsdale

Anne Brunsdale
Vice Chairman

EXHIBIT III

COMMISSIONER

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

January 30, 1987

Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

We read with great interest the January 1987 draft of the General Accounting Office report on the operations of the International Trade Commission recently submitted to us for comment. Examination by a team of GAO's skilled investigators is a useful and instructive exercise for any government agency, and we appreciate the time and effort your staff devoted to this study.

There are several operational deficiencies noted in the Draft Report that we agree should be addressed as quickly as possible. The Commission is taking action or will take action to effect improvements in those areas. On the other hand, we take issue with certain of the findings that we believe reflect unfamiliarity with the demands on the Commission placed by the trade statutes and the procedures we must follow to meet those demands. Our comments follow in the order topics are discussed in the Draft Report.

Investigations

The Draft Report states that ITC Commissioners, in making quasi-judicial determinations, "may be relying heavily on incomplete and unverified data." It recommends that Commission staff redesign investigation questionnaires to obtain a better response rate; set a standard for an "acceptable" response rate; perform spot checks in the field of data submitted by producers and importers; and preface staff reports with a summary which will

"highlight key factors" in each investigation for the Commissioners.

In discussing data collection problems and proposed solutions, the report makes no distinction between procedures in 45-day, preliminary antidumping or countervailing duty investigations and those in antidumping or CVD finals or other types of investigations conducted in a much longer time frame. It also treats questionnaires as the principal, virtually the only, source of investigation data available to Commissioners.

The type of information sought in our questionnaires is mandated by statute and, therefore, substantial abbreviation of the forms is not possible. However, the organization and wording of the inquiries always can be improved, and the Commission welcomes any assistance GAO experts can offer in this regard.

Questionnaire improvements may increase the precision of response, but it is doubtful that they will greatly increase the response rate. The rate of response depends to a great extent on the type of industry involved. An industry with large producers and an active trade association to muster support will respond at a higher rate than an industry with many small producers and little organization. Agricultural investigations, for example, often result in low individual-producer response rates.

As for setting a response rate standard, what measure should be used -- percent of total producers or importers, percent of production or shipments? What does the Commission do if an "acceptable" rate is not attained? At the present time, missing data that are considered important are sought by telephone followup or even subpoena.

Whether the response rate is high or low, the Commissioners must make their determinations before the statutory deadline on the basis of the best information available. Judging "reasonable indication" of material injury or threat in a 45-day investigation often requires reliance upon incomplete data. In other investigations, the Commissioners have much more than questionnaire data to work with; they have conference and hearing testimony, briefs and post-hearing submissions, letters, interview notes, and sometimes special information requested through counsels or trade associations.

Since August, 1986, the staff routinely has provided certain information to help Commissioners put questionnaire responses in proper perspective. They have tried to indicate any possible biases that might be introduced in investigation data based on the number or characteristics of the responding firms relative to the industry as a whole.

To verify the data received in a 45-day investigation would be impossible. Spot checks would be of limited value in other investigations. Questionnaire responses must be certified by company officials, and hearing testimony is given under oath. There are penalties for falsification. The Commission staff always carefully examines information from one member of an industry or an importer that is at odds with that received from others in the group or with industry norms.

It is not clear what is meant in the Draft Report by the "summary" recommended for inclusion in investigation reports. If the summary is to be a staff distillation of key factors in an investigation, it is not a good idea. For each type of investigation, there is a statutory list of factors that Commissioners must consider. However, ITC Commissioners from time to time differ as to which of these factors should be "key" in their decision making.

The staff report is itself a factual summary of the volumes of data received. Staff should not be requested to judge key factors. The strengths and weaknesses of the average case usually are apparent to Commissioners who study the reports -- and we all do as part of the record of an investigation. For complicated investigations, Commissioners may arrange staff briefings where the various factors can be discussed in depth.

Recurring Reports

The Draft Report recommends that the Commission reduce the number or frequency of certain recurring reports and, in some instances, charge user fees for their publication. We agree that there should be periodic evaluation of the continuing need for these reports. However, most are mandated by Congress or the President, and obtaining relief from such mandate may require more than simple documentation of diminishing value.

Combining certain reports might appear to be an attractive cost-cutting measure; but again, statutory requirements may prevent such combination. For example, the Commission cannot combine its annual report on rum with that on the Caribbean Basin Recovery Act, as the statutory completion dates for the two reports differ by four months.

We did look into charging user fees for certain reports in the past. However, our General Counsel at the time concluded that fees could not be charged unless the Commission reports constituted a special benefit for a person or group of persons. Since all Commission reports are used by government agencies (including the Commission) as well as private groups, user fees apparently are not appropriate.

Administrative Issues

Internal Evaluations -- Although there is some difference of opinion within the Commission as to whether this independent agency is legally subject to the Federal Managers' Financial Integrity Act, there is full support for attaining the objectives of the Act. The Commission recently approved a financial audit, which is now under way. Other operational areas will be reviewed subsequently under a three-year audit program.

Security -- We fully agree with GAO's assessment of weaknesses in our past security procedures. Security is a problem that has assumed new dimensions at the Commission with the increasing use of computers and the imminent move to a new, privately serviced building. Steps are under way to correct the handling of national security information. We will seek the advice of consultants and increase our training efforts to better secure business confidential data in this computer age.

Procurement and Property Management -- Rapid expansion of the Commission in recent years has contributed to deficiencies in these administrative areas. The Office of Administration now is proceeding to implement the recommendations of a procurement consultant. The Commission also must develop an adequate property management system before it acquires furniture and equipment in conjunction with its move to new quarters.

Lunch Breaks and Overtime -- A high proportion of Commission staff are professionals who work many extra hours without overtime compensation. An occasional long lunch period is normally balanced with many lunches at the desk. Professionals also use lunch breaks for ITC-related meetings. We agree there should be no "general permission" for long lunches, but believe that sound management requires some flexibility.

There appears to be good reason for the overtime recorded for the Office of Management Services. However, the Director of Administration reports that there should be less need for overtime in the future, and he will monitor future overtime use carefully.

Information Resources Management

We generally agree with GAO's finding that in the past, the ITC's information resource planning has been deficient. The Commission is similar to many other agencies in that it was too long committed to promoting mainframe use at a time when revolutionary developments in information processing were occurring in micro and minicomputers. The prospect of the move to a new facility in 1987 has led the Commission to employ its own resources and that of consultants in developing a comprehensive IRM plan to serve Commission needs in the foreseeable future.

GAO accurately observed that the committee established to oversee this planning now excludes the Director of Operations, Director of Administration, and other key directors who at one time were committee members. The current Chairman appointed the members of the new committee. We believe that the excluded directors should be given the opportunity not only to review, but to report to the Commission their evaluation of the work of the committee.

We are informed that the committee has not yet recommended the number of microcomputers to be purchased this year or the timing of a request for proposal. We believe that substantial acquisitions of equipment should be delayed until the current LANS and mainframe tests are completed so that we can better determine the need for microprocessors versus the need for terminals which will use the processing capabilities of a minicomputer or mainframe.

Sincerely,

Alfred E. Eckes
Commissioner

Lesley G. Lodwick
Commissioner

David B. Rohr
Commissioner

EXHIBIT IV

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

December 18, 1986

TO: The Commission

FROM: Solly Thomas *Solly Thomas*

SUBJECT: Final Report on the Review of Procurement Within the International Trade Commission

Attached is the final report of my review of the Contracting and Procurement Division and the overall procurement process within the International Trade Commission.

I would like to thank all of the Commission employees who have given me their time and assistance. I especially want to thank Lorin Goodrich and his staff for their cooperation and support of my efforts.

I will continue with my 90-day detail to the Commission through January 2, 1987, at which time I will return to my position as Contracting Officer for the U. S. Consumer Product Safety Commission. Until then, I am available to discuss the contents of the report and my review with each of you - either individually or collectively.

At the request of the General Accounting Office (GAO), I have provided Mr. Joe Murray of the GAO with a copy of this memorandum and the attached final report.

If you or your staff have any questions, I can be reached on 724-2741.

Attachment

cc: Mr. Joe Murray, General Accounting Office
Director, Office of Administration
Director, Office of Management Services
Chief, Contracting and Procurement Division

FINAL REPORT

REVIEW OF THE CONTRACTING AND PROCUREMENT DIVISION AND THE PROCUREMENT PROCESS WITHIN THE U. S. INTERNATIONAL TRADE COMMISSION

SUBMITTED BY: SOLLY THOMAS *

* Mr. Thomas prepared this report while on a 90-day reimbursable detail from the U. S. Consumer Product Safety Commission.

This report identifies the current and future procurement needs of the International Trade Commission required to support ongoing program requirements. The full procurement process is examined in detail from the inception of an idea by program personnel through final delivery. Findings are reported and recommendations addressing each need are made.

Summary Findings and Recommendations

The following summarizes the major findings and recommendations:

1. The working relationships between the Contracting and Procurement Division and Commission program personnel are characterized by lack of information and coordination and, in many instances, a disharmony. As a consequence, the procurement process is not as effective as it could be. I recommend the following actions be taken by the Contracting and Procurement Division:

   - Improve requisition and award status reporting.
   - Provide better written guidelines to program offices related to the general procurement process and special needs such as ADP equipment and furniture.
   - Improve procurement planning process.
   - Develop a more proactive role of procurement personnel.

2. Policy guidelines and procedures related to administrative approvals on special purchases, particularly on ADP and furniture requirements, need to be updated, clarified and made known to all parties.

3. Internal Contracting and Procurement Division procedures need to be brought into compliance with Federal regulations on the

preparation, distribution, administration and file maintenance of all solicitation and award documents.

4. The controls, procedures and record keeping in the receiving process must be improved.

5. The level of expertise of Contracting and Procurement Division personnel must be upgraded to meet anticipated new requirements such as ADP equipment and maintenance, furniture, and services. Expertise in these areas should be developed at the early procurement planning stages in order to provide guidelines to program personnel prior to decisions being made.

The general and specific recommendations attempt (1) to remedy the numerous problems in the current process and (2) to meet the future needs of Commission programs. The recommendations are inter-related. If adopted collectively, current identified problems will be remedied and future needs will be met. If adopted individually, many program needs will not be met or will be met only partially.

My review and this report focus on the current and future needs of the procurement process with an objective of overall improvements. In light of the circumstances, the Contracting and Procurement Division has made progress since 1982, during a time in which both the Federal procurement and ITC program requirements have become more sophisticated and complex. One should not lose sight of the achievements of the Division when focusing on the needs addressed in this report. Instead, the issues and recommendations need to be taken as the direction necessary for further development of the Division and the procurement process within the Commission.

Approach

The review focused on the entire procurement process, from inception of an idea by program personnel to the solicitation and award process through final delivery. To identify the needs of program personnel at the early idea or planning stages, I interviewed 50 key Commission program personnel. These interviews revealed (1) the level of support the procurement process currently provides, (2) the level of support program personnel expect from the procurement process, (3) the level of understanding program personnel have about the procurement process, and (4) the steps in the procurement process before the request is received by the Contracting and Procurement Division. Tab A lists the questions asked of Commission program personnel during formal interviews and their general (collective) responses. Tab B lists the persons formally interviewed as well as those contacted informally.

The second phase of the review concentrated on the procurement process from the time the request is received by the Contracting and Procurement Division until award. In order to determine this process, I read the materials listed in Tab C and discussed these materials with the Procurement staff. I also sampled FY 1985 and FY 1986 small purchase documents and reviewed all FY 1985 and FY 1986 contracts. The purpose was threefold: 1) to determine if the Contracting and Procurement Division complied with Federal rules and regulations; 2) to determine if the solicitation and award process was streamlined and efficient; and 3) to determine if the awards were made in a timely manner in order to meet program needs.

The third phase of the review focused on the steps involved after award has been made. I reviewed the purchase order and contract filing procedures to determine the extent of compliance with the Federal Acquisition Regulations. Internal distribution and reporting of procurement actions were reviewed to determine to what extent the requisitioner is advised of the status of these actions. I also reviewed the receiving process to determine the level of controls for receipt and payment.

The last phase of the review attempted to identify future Commission program objectives that relate to the procurement process. To project Commission needs, I reviewed the FY 1987 budget and FY 1988 budget proposal and interviewed key program personnel. I also attended several Information Systems Planning Committee meetings and met with the Chairman of the Furniture Committee. These two areas represent the two largest expected Commission acquisitions. As part of this examination, I compared present and future Commission program needs with the current capabilities of the Contracting and Procurement Division staff to determine what it will take for this staff to provide the necessary support.

Background

In order to put a proper focus on the procurement process within the Commission, there is a need to understand the developments throughout the Federal procurement community over the past few years. In 1982, President Reagan signed Executive Order 12352 which required all Federal agencies to implement major procurement reforms "to ensure effective and efficient spending of public funds..." The Executive Order has four goals: 1) to establish a system in each agency to manage procurement; 2) to simplify the procurement process; 3) to develop a professional work force; and 4) to increase the use of competition.

The Executive Order initiated major changes to the Federal procurement process. In 1984, the Federal Acquisition Regulations (FAR) were implemented which standardized and simplified the rules guiding procurement. The Federal Information Resources Management Regulations (FIRMR) were amended to revise the procedures for acquisition of ADP systems. In 1984, the Competition in Contracting Act was enacted to require agencies to promote full and open competition. New responsibilities and positions were developed in the form of Procurement Executives and Competition Advocates.

As a result of these reforms, Federal agencies have instituted several changes to meet the goals of the Executive Order and to incorporate the new legal provisions. Agencies such as the Environmental Protection Agency have developed automated systems to simplify and expedite the solicitation and award process. Some agencies such as the Commerce Department have developed Contracting Officer Warrant programs to develop professionalism within the procurement workforce. In the larger agencies, procurement has been seperated from management services. Agencies have also emphasized procurement outreach programs to improve program relationships and to ensure procurement is responsive to their needs. At Commerce, for instance, a Procurement Services Staff was developed to provide assistance to program officers in the development of work statements, evaluation of contractors' proposals and the development of training materials. Other agencies publish procurement leadtimes which are used by program personnel during the budget and planning stages. All agencies including the ITC have designated Procurement Executives responsible for management of the procurement system and

Competition Advocates responsible for promoting competition. The ITC Procurement Executive is the Director of the Office of Management Services and the Competition Advocate is the Director of Administration.

The reasons for the Executive Order and the reforms are in direct response to the increased level of sophistication of program requirements, particularly within civilian agencies. No longer does the Government buy manual or electric typewriters. Instead program offices require word processors and computers with sophisticated software and maintenance requirements. Manual records are obsolete and have been replaced by complex management information systems. Even traditional furniture purchases have been replaced by modular and systems furniture acquisitions.

Within the ITC, the development of a procurement work force has been rather sudden. In 1982, procurement responsibilities were transferred from a 1/2 man year responsibility in the Office of Finance and Budget to a Contracting and Procurement Division in the Office of Management Services which began as a 1 1/2 man year unit and has grown to its current size of five (5) people. At the outset, the majority of the Contracting and Procurement Division staff had limited procurement experience or training. This staff had to create procedures and resolve problems with little frame of reference, historical knowledge or perspective.

Since 1982, the ITC program requirements have become much more sophisticated and complex. The current and future needs of the Commission include the implementation of a major office automation program, the acquisition of furniture systems and the procurement of sophisticated studies such as records management and audits. All of the procurements will be developed by both program and procurement personnel generally for the first time.

In summary, the Commission has two basic needs in the procurement area. First the procurement process must catch up with improvements and expansion of procurement services in the Federal government. Second, the procurement process must adjust to keep pace with the changing needs of the ITC program objectives.

Program/Procurement Relations

The most critical part of the procurement process is the working relationships between procurement and program offices. A review was conducted which included in-depth interviews with all major ITC offices.

Tab A reflects the general responses to each question. The biggest need within the ITC procurement process is the improvement of the working relationships between procurement and program personnel. During my review, the program offices expressed several concerns.

Almost all offices complained about the lack of status of procurement actions. While procurement returns copies of the requisitions, requestors do not receive a copy of the award document or a status report of award actions. Most of the offices felt they lacked a general understanding of the procurement process. Several offices expressed a very high level of frustration and emotion with the procurement process. Offices were particularly concerned about decisions being made (i.e., cancellations, substitutions, etc.) without consultation with the originator of the request. In short, almost all of the offices wanted the relationships to

improve. They wanted the Contracting and Procurement Division, particularly Julia Mosley, to take a proactive role, especially with unique requirements such as ADP equipment and maintenance, furniture and studies.

Similarly, there is a high level of frustration by Contracting and Procurement Division personnel. They feel the program offices have unreasonable expectations and complain too much. They find themselves in reactive and defensive roles. Often they spend more time defending an award action than making the award. At times, the Division is blamed for decisions made by non-procurement personnel. In fact, almost all offices have difficulty distinguishing procurement from other management services and are unclear as to who is responsible for what services.

The breakdown in program/procurement relations is severe within the Commission and requires immediate attention and action. Without good work relations, the entire procurement process fails.
All of the above concerns, whether real or perceived, are legitimate to both groups and contribute greatly to a break down in the procurement process. The following recommendations should help to alleviate the concerns and improve the relationship.

To begin with, a copy of each award document should be sent to the requisitioner immediately after award. In this way, the requisitioner knows that the request has been awarded and is advised of the expected delivery date.

Secondly, monthly status reports should be sent to each program office for procurement actions. The status report should be sent directly from the Contracting and Procurement Division and should only include procurement actions. This will distinguish the responsibilities of procurement from the rest of Management Services.

Tab D identifies a sample procurement report that provides status of all requisitions received in the Contracting and Procurement Division. The sample report answers three basic questions - "Where is my requisition?"; "Has it been awarded?"; and "When can I expect delivery?". I suggest the Contracting and Procurement Division draft a similar report and, after comments by program personnel, distribute such a report on a monthly basis.

The Contracting and Procurement Division Chief must take a proactive role with the program offices. I recommend she meet with all major offices on a regular basis (quarterly, at first) to get feedback on the level of procurement support. My review shows that workload in the Contracting and Procurement Division fluctuates. These meetings can be scheduled around the workload and, as relationships improve, the meetings may not need to be held as frequently.

I also recommend that Julia Mosley be a member of the Information Systems Planning Committee and the Furniture Committee. In this capacity, she can inform the Committees on the status of all procurement actions and also provide guidance and advice to the two Committees on the procurement parameters. If future committees are selected that involve planned procurements, the Contracting and Procurement Division Chief should be a member.

In another section of this report, I have recommended that the ITC Directive 3601 be revised to provide program offices with a better understanding of the procurement process. I also recommend that the Contracting and Procurement Division develop a (2-4 hour) seminar

giving an overview of the procurement process. This seminar, which should include written materials on competition thresholds, leadtimes, etc., should be made available to each office every 18 to 24 months.

Procurement Planning

The procurement planning process was reviewed to determine the extent of procurement planning within the Commission. The Commission's Acquisition Planning Document was reviewed and discussions were conducted with program and procurement personnel.

The Directive 3601 requires the Acquisition Planning Document to accompany requisitions over $10,000 except for ADP requirements. There are two basic deficiencies to the current system. First, ADP procurement should be included in the procurement planning process. Second, the objective of procurement planning is to identify procurement requirements at the earliest stages. The current system advises procurement of the "plan" at the point of request. By that time it is simply too late to plan.

I recommend procurement planning within the ITC be revised in the following manner.

Each fiscal year, the Contracting and Procurement Division should circulate the Acquisition Planning Document to all program offices. This should occur in October to coincide with the budget approvals. After receipt of each plan, the Contracting and Procurement Division Chief should meet with each office to discuss the specific requirements. At that time, program personnel can communicate their needs to procurement and procurement can provide advice, guidance and information on the proper method of procurement and the estimated leadtimes. In addition, procurement will have sufficient leadtime to do any preliminary work before the request is submitted. As an example, the Division can provide GSA catalogues to those offices requiring furniture or office equipment. The Division can provide advice on the preparation of the work statement, evaluation criteria and cost estimate. For first time or unique requirements, Procurement can canvass other Federal agencies for sample work statements or contracts. Not only will these steps help reduce administrative and procurement leadtimes, but they also will ensure that the procurement process is more responsive to program needs.

Procurement planning can be an effective tool for planned requirements. At times during a fiscal year, unexpected purchases may be initiated that have not been planned. Ideally, such purchases are kept to a minimum. However, as the Contracting and Procurement Division anticipates and processes planned requirements, it is in a much better position to support unplanned requirements.

Requisitioning Process

Within the Commission, the ITC No. 51 form is the requisitioning document used for all procurement requests. I recommend several changes to the requisitioning process which should help to reduce administrative leadtimes and provide better accountability and status for the requisitioner.

Currently, all requisitions (ITC No. 51) are submitted directly to the Administrative Services Division of the Office of Management Services before going to the Contracting and Procurement Division. The requisitions are reviewed to determine if the item requested is available from stock or excess property. If the item requested is not available from these sources, the requisition is forwarded to the Contracting and Procurement Division. At that point, the requisition is entered into a log. I recommend that this procedure be changed and that all requisitions be submitted directly to the Contracting and Procurement Division and immediately entered into the procurement log. Administrative Services Division reviews can be made after the requisition is logged in by Procurement. The ITC No. 51 form should be revised to reflect the new mailing address - Contracting and Procurement Division.

Currently each requisitioning office assigns its own unique requisition control number. When the requisition is received in the Contracting and Procurement Division, procurement assigns its own unique number. During the interviews, several offices stated that this situation creates confusion. I recommend the Commission revise the ITC No. 51 form to include a pre-printed number for standard use by all offices.

Another issue raised by program offices during my interviews was the required delivery times. Several expressed disatisfaction with actual delivery times which differed from the required delivery date specified on the requisition. In fairness to procurement, in several cases the required delivery date had passed before procurement actually received the requisition. Recognizing that delivery time is a crucial factor, I recommend the following statement be made part of the requisition form:

"If delivery cannot be provided within _____ calendar days, please advise the program officer prior to issuance of the purchase order.".

Administrative Leadtimes

Part of the procurement process involves administrative leadtime. Administrative leadtime begins when the requisition leaves the requisitioner's desk and ends when the requisition is received by Procurement. Generally, this time is needed to obtain special reviews and approvals. While this time is beyond the control of the Contracting and Procurement Division, it adds time to the procurement process, a particular concern of the requisitioner.

In order to determine the average administrative leadtimes for the overall Commission and for major offices, I reviewed FY 1985 and FY 1986 requisitions.

The findings are as follows:

OFFICE	AVERAGE LEADTIME (In Calendar Days)
Commission - overall	3-4 days
ODS	4 days
Economics	6 days
Investigations	6 days
OUII	6-7 days
Industries	7-8 days
General Counsel	8-9 days
Tariff Affairs	11 days

Note: A 10% sample was pulled for the overall Commission and the Office of Data Systems. All other offices reflect actual leadtimes.

These administrative leadtimes are too high and contribute to the frustration levels of requisitioners. A 1-3 day average seems more reasonable for a small agency. I was unable to determine how much of the administrative leadtime was due to internal program reviews (i.e., Office Director, special committees, etc.). I recommend that the Commission use a routing slip on the cover of each requisition for a trial period (3 to 4 months). This should pinpoint the delays. Once the causes of the delays are determined, the problems can be more easily remedied.

During the interviews, several program offices expressed a great deal of concern and confusion about the Commission's policies, guidelines and procedures related to the purchase of furniture and ADP equipment. These offices stated that they did not know if they were allowed to buy furniture and ADP equipment, and if so, how much had been approved for purchase by their office. Currently, there are no written guidelines that provide program offices of the approved purchase plans for furniture and ADP equipment. Not having such guidelines may contribute to long administrative leadtimes. The Commission's automation plan should be developed with input by all offices and the approved plan should be distributed to each office. In this way, each office will be aware of what has been approved for purchase. A furniture acquisition plan should be developed in a similar way and, after approval, this plan should be distributed to each office.

In addition to approved purchase plans, internal procedures should be developed for the requisitioning of furniture and ADP equipment that have been approved for purchase. The Information Systems Planning Committee is developing draft procedures on ADP related requisitions. Similar procedures should be developed for furniture requests. The proper use and communication of approved purchase plans and requisitioning procedures should help to reduce administrative leadtimes.

Procurement Leadtimes

Another part of the overall procurement process is procurement leadtime. Procurement leadtime begins when a properly prepared, fully documented requisition is received in the Procurement office and ends when the purchase order is issued or the contract is awarded.

In order to determine the ITC procurement leadtimes, I reviewed a 10% sample of all FY 1985 and FY 1986 purchase orders of $10,000 or less. I also reviewed all (75) FY 1985 and FY 1986 purchase orders over $10,000. Finally, I reviewed all FY 1985 and FY 1986 contracts, FEDSTRIP orders and orders through the Government Printing Office. I was unable to determine procurement leadtimes for contracts because I could not locate the requisition which initiated the procurement leadtime.

The following reflects the ITC averages.

ITC PROCUREMENT LEADTIME IN CALENDAR DAYS

CATEGORY OF PROCUREMENT	LEADTIME (in calendar days)
$1,000 and Under (Open Market)	2-3
$1,001 through $10,000 (Open Market)	2-3
$10,001 through $25,000 (Open Market)	Unable to determine *
Deliveries orders against established schedules (ie., GSA) Any amount (non-ADP)	3-4
Over $50,000 (ADP)	Unable to determine *
Orders with other Government agencies (i.e., GPO, FEDSTRIP)	2-3
Contracts	Unable to determine *

* Unable to locate the requisition which initiated the procurement leadtime.

Procurement leadtimes can be a very effective tool for program officers during the planning and budget stages. These leadtimes serve as guidelines to indicate the average amount of time it takes Procurement to make an award. I recommend that the Contracting and Procurement Division annually develop estimated procurement leadtimes for each category of procurement and publish the leadtimes to the Commission program offices.

I must qualify my recommendation to publish leadtimes. First, the FY 1985 and FY 1986 averages may not be realistic. During the review, 38% of the requisitions were not in the purchase order folders so it was difficult to determine when the requisition was received in the Contracting and Procurement Division. Also, a great deal of preliminary work - Commerce Business Daily announcements and written competition - was accomplished before the requisition was received in the Contracting and Procurement Division. This type of activity is to be considered when calculating procurement leadtimes.

Second, the leadtimes are averages. It is impossible to predict precisely how much time any individual procurement action will take. Several factors may affect the procurement process. For example, a $6,000 order against a single award Federal Supply Schedule does not require competition. On the other hand, a $6,000 order against a multiple award schedule does require competition. Thus, these two awards may have different procurement leadtimes.

Third, and most important, the leadtimes should be used for planning purposes, not as report cards by program offices. The estimated leadtimes are averages that reflect normal expectations.

Purchase Orders - FAR Compliance

In order to determine compliance with the Federal Acquisition Regulations, FY 1985 and FY 1986 purchase orders were reviewed. A 10% sample was made of FY 1985 and FY 1986 purchase orders of $10,000 or less. I also reviewed all (75) purchase orders over $10,000.

Of the 222 purchase order folders reviewed, 85 (or 38%) did not contain requisitions, memorandum of needs or any written documentation to initiate the request. In addition, while competition was obtained in some instances, the quote abstracts often were not in the purchase order folder. When I arrived the Division was establishing a new purchase order filing system. Under the previous filing system, the final purchase order copy and the requisitions were not kept in the same folder. Thus, it was extremely difficult to identify the extent of competition.

Improvements need to be made to the purchase order filing system. The Federal Acquisition Regulations require procurement files to contain "documentation sufficient to constitute a complete history." Each purchase order folder should contain, at a minimum, copies of: 1) the requisition; 2) back up materials such as internal justifications; 3) evidence of competition, including the Request for Quotations, all written quotations or oral quotes; 4) Commerce Business Daily announcements, if appropriate, and 5) the purchase order.

Twenty-four (24) open market purchases requiring informal competition ($1,001 through $10,000) were sampled. Competition was obtained in 15 awards. The remaining 9 awards did not legally require competition since these awards were for Blanket Purchase Agreements, licensed agreements or with another Federal Agency.

A review was made of eighty-four (84) delivery orders issued against the GSA Federal Supply Schedule for purchases over $1,000. Thirteen (13) orders showed evidence of competition. Sixteen (16) orders were issued against single awards schedules. Purchase order folders of fifty-two (52) orders contained no evidence of competition or statements that the order was issued against a single award schedule.

Nine (9) open market awards over $10,000 were made which required solicitation announcement in the Commerce Business Daily. In one case, an announcement was made in the Commerce Business Daily. In two cases, the Competition Advocate cited public exigency. The remaining six awards were not advertized in the Commerce Business Daily. These awards are as follows:

PURCHASE ORDER NUMBER	AMOUNT
85-0588	$11,224
86-0357	$12,468
86-0397	$25,041
86-0420	$25,536
86-0523	$46,866
86-0657	$17,950

Five (5) awards were made for ADP Federal Supply Schedule equipment and services in excess of $50,000 which require solicitation announcements in the Commerce Business Daily. Four of the five awards were advertized in the Commerce Business Daily. Delivery Order 86-0502 for $52,074 was not advertized.

Five (5) purchase orders were awarded using small purchase procedures although each award amount exceeded $25,000. Accordingly, each should have been awarded as contracts using sealed bidding or negotiation procedures. These purchase orders are as follows:

PURCHASE ORDER	AMOUNT	DESCRIPTION
86-0523	$46,866.38	Interleaf Office Publishing System
85-0684	$34,580.00	IBM 3370-B01 Disk Drives
86-0420	$25,536.00	IBM PC-XT Software
86-0728	$48,000.00	WEC Computers
86-0397	$24,541.00 (orig.) $25,041.00 (amend)	PC Slave Board

Purchase Order 86-0397 was awarded for $25,041 but was signed by an individual with a Contracting Officer delegation of $25,000. Purchase Order 86-0657 was signed by an individual who was acting on behalf of the Director of Administration. While this individual had been delegated administrative authorities of the position, he did not have a written contracting officer delegation as required by the FAR. This purchase order was eventually cancelled for reasons unrelated to the delegation of authority. All ITC Contracting Officers should review their responsibilities and the appropriate parts of the FAR. Contracts are legally binding documents and those individuals who sign contracts outside of, or without, contracting officer authority may be personally liable.

In summary, the above suggests that Contracting and Procurement Division personnel and those with Contracting Officer authority need to better understand and more closely comply with the Federal Acquisition Regulations requirements. Open market requirements require informal (oral or written) competition for awards over $1,000 through $10,000. Open market requirements require written competition (Request for Quotations) and Commerce Business Daily synopsis for awards over $10,000 through $25,000. Formal contracting procedures (negotiating or sealed bidding) are required for all open market awards over $25,000. Commerce Business Daily synopsis is also required for all ADP orders over $50,000 issued against Federal Supply Schedules. Competition is required for all orders issued against a multiple award Federal Supply Schedule for requirements over $1,000.

Purchase Orders - Distribution

The Optional Form 347 (Order for Supplies or Services) is the purchase order form utilized within the Commission. The current distribution of the form is as follows:

COPY	CURRENT DISTRIBUTION
Original	Vendor
Copy 1	Office of Finance and Budget
Copy 2	Contracting and Procurement Division files.
Copy 3	Administrative Services Division After receipt, returned to Contracting and Procurement Division.
Copy 4	Administrative Services Division After receipt, forwarded (through Contracting and Procurement Division) to Office of Finance and Budget
Copy 5	Office of Finance and Budget

I recommend the Commission order the eight (8) part optional Form 347 from the Government Printing Office and distribute the purchase order in the following manner:

COPY	PROPOSED DISTRIBUTION
Original	Vendor
Copy 1	Office of Finance and Budget
Copy 2	Contracting and Procurement Division files
Copy 3	Administrative Services Division After receipt, forward to Contracting and Procurement Division
Copy 4	Administrative Services Division After receipt, forward (through Contracting and Procurement Division) to Office of Finance and Budget
Copy 5	Office of Finance and Budget
Copy 6	Requisitioning Office
Copy 7	Retained in Office of Management Services Receiving Staff

A separate section of this report addresses the need for the requisitioning office to receive a copy of the awarded purchase order. Another section addresses the need for the Office of Management Services' Receiving Staff to retain a copy of the awarded purchase order.

Contracts

Five (5) contracts have been awarded since FY 1984 (excluding option renewals). Each of these files was examined.

In all five (5) awards, each solicitation was advertized in the Commerce Business Daily, as required by the FAR for requirements over $10,000. Each was actively competed with as many as fifteen (15) bids on one requirement. Each made effective use of the option renewal provisions. All of the contracts utilized the required provisions and contracts in the proper FAR format. One very effective feature is the Bidder's Check List which was used on all Invitation for Bids.

Two areas in the contracting process need improvement: (1) the preparation of the statement of work and the evaluation factors by program personnel and (2) the preparation and file maintenance of solicitation and contract documents by Procurement personnel.

Program offices and the Contracting and Procurement Division must take a much more active role in the development of the work statements, cost estimates and evaluation criteria. Recognizing that ITC contract workload is small (3-4 per year), this joint effort should be relatively easy to accomplish, yet would improve the product tremendously. First, the Contracting and Procurement Division should canvass other Federal procurement offices to identify existing (and effective) statements of work and evaluation criteria. The Division should maintain a small reference library available to program and procurement personnel for ITC recurring and anticipated requirements, such as stenographic services, ADP equipment and maintenance, data entry services, audit services and training.

Second, for major acquisitions, I recommend sending key program personnel to formal training on the development of work statements. These courses generally include written instructions on work statement preparation. I have also provided Julia Hosley with a video tape entitled "Technical Proposal Evaluation". This video not only describes how to evaluate contractors' proposals but it also suggests types of evaluation criteria. The Directive 3601 offers clear instructions on the development of work statements; it should be read by program personnel. Finally, Julia Hosley should provide hands-on training to the key requisitioners on their specific requirements. Because of the small number of contracts, hands-on training is a very practical and effective, particularly if coupled with samples from other Federal agencies.

Improvements need to be made in the development and maintenance of solicitation and contract documents. The FAR requires that each contract file should contain documentation "sufficient to constitute a complete history." The FAR further defines what constitutes sufficient documentation. Under the current filing system, the contract information is spread amongst at least three contract files.

Each contract folder should contain, at a minimum, the following:

1. Initiating Request (including appropriate signatures).
2. Commerce Business Daily Announcement.
3. Source (Bidder's) List.
4. Request for Proposals/Invitation for Bids.
5. Technical and Cost Proposals and Evaluations/Bid Abstracts.
6. Summary of Negotiations.
7. Award Document.
8. Contract Administrative Correspondence.
9. Financial and Technical Reports.

Tab D includes a checklist used by the Contracting Office at the Consumer Product Safety Commission. I suggest Julia Mosley contact other Federal procurement offices and select or adapt a checklist most appropriate to ITC.

Several Federal agencies electronically submit the Commerce Business Daily letters. This reduces the mail time by as many as five (5) days. I gave Julia Mosley the name of IBM PC compatible software that will enable the ITC to electronically submit letters.

The FAR allows for incorporation of provisions and clauses by reference in lieu of full text printing. The two-fold purpose is to simplify the solicitation and award documents and to reduce paperwork. In one of the five contracts, Section I (Contract Clauses) listed the clauses by reference. This reduced the size of the contract by 35 pages. I recommend Contracting and Procurement Division review each Section and incorporate as many clauses and provisions by reference as standard ITC policy. I have provided Julia with a sample Request for Proposals and contract which incorporate the FAR policy.

The contract folders do not reflect Contracting Officer's Technical Representative (COTR) delegation of authority which advises the COTR of his/her responsibility. I have provided Julia Mosley with a sample delegation. I have also advised her of a video tape entitled "The Role of the COTR in Contract Administration". This video is available through the Federal Acquisition Institute and has been used effectively at other Federal agencies. I suggest that a written COTR delegation and the video training be incorporated as standard ITC practice.

Receiving Process

The ITC receiving process was reviewed to determine the level of controls necessary to insure accurate and timely delivery. Receiving is a critical part of the procurement process because it is the initial delivery point of goods purchased and the primary authorization for payment. That is, before payment can be made, Receiving must provide written documentation that the ordered item has been received.

Within the ITC, all items are delivered to the Administrative Services Division Receiving staff. The Receiving staff delivers the item to the requisitioning office which signs the original requisition. Upon receipt of this signature, Receiving signs two copies of the purchase order and forwards one signed copy to the Contracting and Procurement Division and one signed copy (through the Contracting and Procurement Division) to the Office of Finance and Budget. Finance and Budget matches the signed receiving report with the vendor's invoice and issues payment.

Several problems need to be corrected within the current receiving process. First, a (10%) sample was collected of FY 1986 deliveries. Of the 49 orders signed by the Administrative Services Division Receiving staff, 30 requisitions had corresponding signatures from the requisitioner. Second, the requisitioner's signature appears on the requisition while procurement, program, and finance personnel use the Purchase Order number for delivery verification and payment authorization. Furthermore, some of the signed requisition copies are kept in separate files for property records. More importantly, there are different receiving procedures for different types of deliveries. As an example, general supplies

are not signed for by the requisitioners, but capitalized property is. I recommend the following procedure be standardized for the receipt of all deliveries.

The Receiving staff currently receives two copies of the purchase order. The two copies are returned to Procurement for payment approval. Receiving should now get three copies of the purchase order. The third purchase order copy should contain the requisitioner's signature and should be retained in the Receiving staff at all times to show proof of receipt by the requisitioner. The receiving records should be filed by purchase order number for easy retrieval. This procedure should be in place for all deliveries, regardless of dollar value.

C&P Internal Procurement Procedures

As part of the review, the Contracting and Procurement Division internal procedures were reviewed as well as the ITC Directive 3601, "Contracting and Procurement Policy Procedures." On the whole, the internal Contracting and Procurement Division procedures were very complete and require minor changes.

The following change should be made to be consistent with the Federal Acquisition Regulations:

CURRENT INTERNAL PROCEDURES DOLLAR THRESHOLDS	REQUIRED FAR ACTION	DOLLAR THRESHOLDS REQUIRED BY THE FAR
Under $1,000 (open market)	1. Fair and reasonable price	$1,000 and under (open market)
$1,000 to $9,999.00 (open market)	1. Written or oral competition	1,000 through $10,000
$10,000 and over (Open market)	1. Written Request for Quotation 2. Commerce Business Daily announcement	Over $10,000 (open market)

The internal procedures should also be changed to implement changes recommended in this report on receiving and distribution of purchase orders.

The Directive 3601, "Contracting and Procurement Policy and Procedures" is a very thorough directive. However, most offices indicated they were not aware of its contents and my review found that most offices were not following the procedures. I do recommend some changes. First, the Directive should include more procurement related definitions such as requisition, request for quotations, request for proposals, invitation for bids, purchase order and contract. The Directive should also reflect the competition thresholds required by the Federal Acquisition Regulations. These dollar thresholds should be updated to reflect the actual FAR thresholds.

The Competition Advocate responsibility should include a required approval for sole source purchases over a certain dollar threshold (i.e, $5,000 or $10,000). The FAR requires Competition Advocate signature on such requirements over $100,000, however, most small agencies require Competition Advocates signature at much lower levels-generally $10,000. The Sole Source Procurement guidelines within the ITC need to be revised to incorporate the FAR changes implemented by the Competition in Contracting Act. Specifically, the Directive should list the seven (7) exceptions to other than full and open competition and the required steps (ie., Commerce Business Daily announcements , development of RFP, etc.).

Changes should be made to the Acquisition Planning Document to require a plan for all purchases over $10,000 to be submitted to the Contracting and Procurement Division by a certain date. (See the Procurement Planning Section of this report).

The Directive needs to be a working tool for the program offices. Accordingly, I recommend the above changes be incorporated in a draft Directive which could then be circulated to the Directive users (program offices) for comment before a final Directive is issued.

Delegation of Contracting Officer Authority

The method of delegation of procurement authority was reviewed to determine compliance with the recent changes to the Federal Acquisition Regulations. A secondary review was performed to compare the levels of ITC procurement authority to two agencies comparable in size - the Merit Systems Protection Board and the Federal Trade Commission.

The Federal Acquisition Regulations specify the procedures required to delegate contracting authority. The FAR requires Contracting Officer delegations to be in writing and to state any limitations (i.e., dollar thresholds) or specific responsibilities (i.e., authority to redelegate). The delegations are to be appointed in writing on the "Certificate of Appointment," SF 1402. Appointing officers are required to maintain files containing copies of all Certificates of Appointment. The FAR also requires termination of Contracting Officer authority to be in writing. As a practical rule, copies of terminations should also be maintained in the same set of files.

Within the ITC, several changes to the Contracting Officer delegations need to be made in order to comply with the FAR.

The FAR cites that Contracting Officer authority rests in the agency head, or the Chairman, in the case of the Commission. In addition to the Chairman, the following ITC employees currently have written "Certificates of Appointment":

ITC EMPLOYEES	DELEGATIONS
Lorin Goodrich	$50,000
David Spencer	$25,000
Julia Hosley	$15,000
Eldee Whitehead	$ 500

Mr. Goodrich's delegation from the Chairman does not include the authority to redelegate. The current delegations to Mr. Spencer and Ms. Mosley, however, are signed by Mr. Goodrich. Furthermore, Ms. Mosley redelegated authority to Mr. Whitehead without the written authority to redelegate. The FAR requires that all appointing officials have the authority to redelegate.

In June, 1986 the Chairman issued reductions in these delegations as follows:

ITC EMPLOYEES	DELEGATIONS
Lorin Goodrich	$25,000
David Spencer	$10,000
Julia Mosley	$10,000

This reduction was issued verbally and not in writing, as required by the FAR.

I recommend new memoranda be issued with new Certificates of Appointment for Mr. Goodrich, Mr. Spencer and Ms. Mosley. If Mr. Goodrich is to be an appointing official, his delegation memorandum and certificate should reflect "the authority to redelegate up to $....." Tab D reflects a sample delegation which includes the authority to redelegate. Copies of all Certificates and each delegation memorandum should be retained in one set of files, either with the Office of the Director of Administration or the Procurement Executive. Equally important, any new delegation, termination or change must be issued in writing, and only by an individual with delegation authority.

During my review, there was some discussion on the appropriate levels of procurement authority. In order to have a proper focus, I talked with officials at two other agencies - the Merit Systems Protection Board and the Federal Trade Commission. In both agencies, the head of Procurement had unlimited procurement authority. Their supervisors, including the agency head, also had unlimited procurement authority but rarely exercised that authority. Normally, all requests for procurement actions of high values (i.e., $50,000) were approved by higher agency officials before the request was forwarded to Procurement. Only after this administrative approval was obtained, did the procurement official begin the procurement process. In almost all awards, the procurement official was the Contracting Officer.

I recommend the following delegations be maintained in the Commission:

Lorin Goodrich	$50,000
David Spencer	$25,000
Julia Mosley	$25,000

I also recommend that the Directive 3601 be revised to require all (ITC No. 51) requisitions over $25,000 be approved by the Chairman prior to submission to Procurement. This procedure will provide administrative controls on the expenditure of funds. This would also place the responsibility of compliance with federal procurement regulations on the above three procurement officials and relieve the Chairman of that operational responsibility. The Chairman would be the Contracting Officer only on those awards over $50,000 (3 to 4 awards per year).

On award packages forwarded for the Chairman's signature, I recommend a formal memorandum be submitted from the Contracting and Procurement Division Chief through the Procurement Executive and the Competition Advocate to the Chairman. The memorandum should include a general background of the actions taken and how these actions relate to what is required by the Federal Acquisition Regulations. I also recommend that the full award folder be forwarded which should include all back up materials related to the solicitation and award process.

Contracting and Procurement Division Personnel Development

The level of training and experience of the Contracting and Procurement Division staff was reviewed to determine if the Division is prepared to meet current and future procurement needs.

The following is a summary of experience and completed formal procurement training for each Division employee:

NAME	YEARS IN PROCUREMENT	HOURS OF FORMAL TRAINING
Julia Mosley	5	603
George Trummel	4	296
Carl Hawkins	8	360
Jean McLeod	3	241
Eldee Whitehead	3	281

The entire staff has received more than adequate formal procurement training. However, there is always a need to continue to develop employees through formal training. Tab D includes a guide in use at the Department of Commerce for the development of all procurement personnel. The guide identifies the logical progress on developmental training as well as the specific courses appropriate for each level.

There is a need to improve the level and diversity of expertise within the Division. The Division is less than four years old and most of the procedures and practices have been developed from scratch. As a result, while the Division is prepared to process routine purchases, it is not as well prepared to handle unique, first time procurements. Nor is it in a position to provide advice and guidance to program personnel on the best method of procurement for requirements that are processed for the first time by both parties.

With an effective procurement planning system, the Contracting and Procurement Division Chief can identify upcoming requirements at an early stage. At that time, the Chief can focus on gaining expertise for her and her staff on the unique requirements. She can then canvass other Federal agencies and their experience can be passed on to her staff and the program offices. She can also visit other Federal procurement offices to review their internal procedures and obtain sample work statements and award documents. She can then adapt these procedures to the Commission's procedures.

There have been some recent changes to the Federal Information Resource Management Regulations (FIRMR) regarding ADP procurement. Also, within the next few months the Commission will be issuing a Request for Proposals (RFP) for the acquisition of ADP equipment. I suggest Julia Mosley attend an ADP procurement training course prior to issuance of the RFP, if possible.

Performance Standards

There are three general measures of procurement performance - timeliness of award, quality of compliance with Federal regulations, and responsiveness to program needs.

Timeliness of award is critical to the procurement process. I recommend the Commission's ITC published leadtimes be incorporated into the Contracting and Procurement Division performance standards. The use of these timeframes identifies the level of performance expected of the individual Division employee as a part of the collective Division standards. These standards are easily measured by reviewing purchase order and contract folders.

The quality of compliance is also critical because it requires Procurement personnel to comply with Federal regulations and to uphold the public trust. Similarly, as a performance standard it serves to balance the standard for timeliness of award. I recommend this type of standard be incorporated into the performance standards of Division employees. Again, this is easily measured through review of award folders.

There is a critical need to develop a performance standard for each Division employee that requires responsiveness to program needs. Selecting the proper procurement, providing guidance and assistance and exhibiting customer service attitudes in a positive manner are all part of this standard. While this standard is not as quantifiable as the other two, it can be measured in smaller agencies by obtaining feedback from program offices.

Tab D identifies sample performance elements for Procurement supervisors, Contract Specialists, and Purchasing Agents that attempt to address each of the three general categories.

Automation

A cursory review was performed on the automation needs of the ITC Contracting and Procurement Division. The following equipment is in use by the Division:

One (1) IBM XT Personal Computer.
Five (5) NICOM Word Processors (rentals).
Five (5) KIMTRON Slave Terminals.
One (1) Televideo Terminal.
One (1) NEC Computer.

As a background, the Division has used the NICOM system since 1983. In 1985 the IBM PC system (including the KIMTRON Terminals) was installed and put into use to replace the NICOM system. In 1986, the NEC Computer was installed but is not yet functional.

A more in-depth analysis of the automation needs of the Contracting and Procurement Division is needed. Specifically, this review should include a functional requirements analysis, a conversion plan for existing files, a review of the appropriate mix of software and hardware and an identification of any new design requirements. Perhaps this expertise is available in-house through the Office of Data Systems. I do not have the expertise in this area but can identify some general issues that need focus.

Most procurement offices typically attempt to automate the most labor intensive steps: (1) the preparation of solicitation and award

documents, and (2) the tracking and reporting of requisitions and awards. Ideally, tracking and reporting information is captured as the documents are prepared. The Contracting and Procurement Division has received software developed commercially by the Environmental Protection Agency (EPA). The EPA system, which has been adapted by several Federal agencies, develops solicitation and award documents and creates the data bases necessary for tracking and reporting.

One of the more recent automation applications is the ability to communicate with other Federal agencies and their data bases. As an example, agencies can now access the General Services Administration for stock items and prices through the MUFFIN system. The ITC Procurement office uses the televideo terminal for this purpose. The Small Business Administration, through its PASS system, provides agencies with a data base of small business contractors available for bidding. As mentioned elsewhere in this report, agencies can now electronically submit letters to the Commerce Business Daily. The Contracting and Procurement Division needs to keep abreast of these data bases and use them when appropriate.

The Contracting and Procurement Division personnel are very receptive to the use of automated systems and I was impressed by their acceptance of and expertise in office automation. If this user acceptance is combined with a thorough technical review and development of the systems cited above, I feel that the automation of the procurement process within Contracting and Procurement Division should allow for a great deal of savings and efficiencies.

Future Program Requirements

The future program requirements that involve procurement activity were reviewed to determine the level of support necessary to meet these needs. This review included interviews with senior program managers as well as a review of the FY 1987 budget and the proposed FY 88 budget.

The Commission has identified approximately $600,000 in FY 1987 and approximately $600,000 in FY 1988 for the procurement of ADP systems. There will also be a need to maintain this equipment after the warranty period has expired. The Commission has also set aside funds for the major acquisition of furniture and equipment for the new building. In addition, the General Services Administration is studying the storage and retrieval requirements of the Commission. Equipment will be pilot tested in the spring of 1987 and, after evaluation, added equipment will be procured for use in the Agency. Other services are likely to be required to relocate Commission employees to the new ITC building in the fall of 1987.

In each of these cases, the Contracting and Procurement Division needs to provide guidance to program personnel in a proactive way. Procurement personnel should meet regularly with the appropriate program personnel to maintain a general understanding of program plans. Procurement should review the regulations pertaining to each requirement and meet with other Federal agencies who have already procured these items. Research of this type will both provide effective training for Procurement and develop ready access to sample work statements and contracts. Written guidance should be given to program offices including options and timeframes appropriate to each type of procurement.

Over the past two months, I have worked with Julia Mosley to provide written guidelines to program personnel on procurement procedures related to ADP equipment and furniture.

Julia recently submitted a memorandum to the Chairman of the Information Systems Planning Committee advising him of the procurement procedures, options and leadtimes related to the procurement of ADP equipment. She also obtained a sample Request for Proposals (RFP) and provided a sample statement of work to the ISPC members. In a separate memorandum, Julia advised the Chairman of the Furniture Committee of procedures related to furniture procurements. She provided names of contractors, delivery times and maximum order limitations for each GSA schedule. She also provided a copy of all contractors' catalogues. This type of proactive involvement is the key to good procurement/program relations and to procurement planning.

Future Considerations

Reviewing the procurement process identifies a need, the solution of which has implications beyond the scope of this particular study. The procurement process in the Federal government is an extremely complicated business. To add to the complexity, the volume of rules and regulations are constantly changing. It is appropriate for any agency to conduct regular external reviews (external to the procurement office). It is also appropriate for agencies to conduct evaluations of other systems in both administrative and program functions. There are several ways in which to accomplish this. One method is to maintain in-house capabilities. Another option is to perform these services by contract. A third method is to obtain the services of other Federal employees through reimburseable details. Regardless of the method, there is a need for an evaluation program.

The above is a concept that the Commission may want to consider at the completion of reviews by the General Accounting Office and the financial audit. At that time, the Commission should be in a better position to determine either the need for, or the role of, an independent evaluation function.

Question:

The Commission has an authorized permanent position level of 502, which includes 20 additional positions provided by the Congress in the 1987 appropriations bill. How many of these positions are vacant?

How many of the 20 positions provided by the Congress have been filled?

Since the House Subcommittee appropriations report provided direction as to where these positions should be placed within the ITC, why hasn't the Commission move more quickly to fill them? Are we to conclude that the positions have not been filled because they are unnecessary?

Response:

When Congress passed the appropriations bill providing for an additional 20 positions for the ITC, the Commission had already submitted its FY 1987 budget request to Congress, allocating 482 authorized positions. In fact, the Commission had already unanimously approved the FY 1988 budget request, again including an allocation of 482 authorized positions.

Many of the circumstances which existed at the time the Commission submitted its FY 1987 budget request to Congress had changed by the time we were provided with the additional 20 positions. These changes had resulted from normal hiring practices as well as from the FY 1987 plan allocation. Because of these changes, the process of effectively allocating the 20 positions required considerable additional thought and consultation between Commissioners and Commission managers.

As soon as a consensus was reached, a reprogramming request reflecting the Commission's unanimous position on the allocation of the 20 positions was submitted to the Appropriations Committees, in compliance with their instructions. The Commission received approval of its reprogramming request on February 5, 1987.

As of March 3, 1987, there were 465 staff on board within the Commission, with 37 vacancies. This represents a vacancy rate of 7%. These vacancies, which include the 20 positions provided by Congress in the 1987 appropriations bill, are in recruitment status. I have instructed each office head to proceed with diligence in filling all vacancies. Based on an authorized strength of 482 authorized positions, the level which existed prior to the Appropriations Committee action providing the Commission with the additional 20 positions, the Commission had only a 5% vacancy rate, well within the normal range for agencies of our size.

Question:

Several years ago the ITC purchased a new mainframe computer. However, the Commission continues to spend about $500,000 for computer services from the National Institute of Health. Why? What percent of its own mainframe computer capacity is the Commission using?

Response:

It is not and will not be feasible to transfer most of the work we do at NIH to our smaller in-house machine. At NIH we access massive trade data files maintained there by other Federal agencies. We have transferred several ITC administrative applications from NIH to our machine, and we have developed several new applications on the in-house machine that otherwise would have meant additional expenditures at NIH or elsewhere. Our NIH expenditures peaked last year at $404,000 after several years of growth, and are running at an annual rate of $336,000 so far this fiscal year. The growth in our use of NIH occurred mainly as a result of improvements we made in our ability to produce trade data reports quickly and cheaply. Demand for this information has soared as a result. We do not see this as a problem, but we are, of course, monitoring these expenditures.

Utilization of our in-house mainframe has grown slowly. On average over a recent month we were using about 80 percent of the system's disk storage capacity, 55 percent of its communications ports and 30 percent of available CPU cycles. We have found it difficult to provide in-house service and support as attractive as that available at NIH. At this point, our in-house mainframe is also near the end of its technological life. I have, therefore, asked our staff to conduct a study this fiscal year to determine the most cost-effective way to handle our data-processing requirements in the years ahead. Current OMB guidance is that agencies should acquire new in-house data-processing capacity only after first considering the availability of commercial facilities or Government-owned facilities (like NIH), and only if there is a clear cost advantage to maintaining an in-house facility.

Question:

The Commissioners and their personal assistants cost the government $3.3 million or 10% of the total ITC budget. Do you really need 40 personal assistants for commissioners to manage an agency of 500 people with various office directors?

Response:

Each Commissioner is allocated four staff positions and the Chairman is allocated an additional two positions, for a total of 26 staff assistants. Most of these employees are not involved in managing the agency at all. Their time is primarily spent on analysis of the more than two hundred import relief and fact-finding investigations on which each Commissioner votes and writes memoranda and opinions each year. I have no doubt that each Commissioner needs four assistants (including a secretary) to carry out these statutory responsibilities. Two additional staff are allocated to the Chairman's office to assist the Chairman in carrying out the additional responsibilities imposed on the Chairman by statute and by Commission rules. A more detailed discussion of the need for two additional staff persons for the Chairman is found in my response to the question on page 39, infra.

In our budget justification we included under the heading of "Executive Direction" all the time of Commissioners, the Chairman and their staff assistants plus the time of other Commission staff providing support to the Commissioners' offices, including staff from the Secretary's Office, summer interns, the Presidential Management Intern, and staff from the General Counsel's Office.

Questions Submitted by Senator Domenici

Calls for budget reform are increasingly heard as budget deadlines are too often missed, important budget decisions are delayed, appropriation bills and other direct spending legislation are held up in committee, and omnibus spending bills take the place of timely and orderly consideration of individual bills. One procedural reform that is being considered is the two-year budget cycle where budget and appropriations matters would be considered in the first year, and authorizations and oversight would be undertaken in the second year.

Question:

1. Would your department/agency favor a biennial budget process? What benefits would your agency achieve in a two-year appropriation cycle?

Response:

I have just completed my first budget formulation as Chairman and do not look forward to repeating this process again next year. I have observed the enormous amount of resources devoted to the entire budget process and cannot help but believe that for agencies like the ITC where specific and continuing statutory responsibilities are funded through a single salaries and expenses appropriation, it is inefficient to repeat this process every year. I personally support a biennial budget process. A biennial process would provide greater stability in planning agency program operations, and limit the crisis management atmosphere that exists all too frequently when agency appropriations are not enacted by the beginning of the fiscal year. Also, agency budget staff would be provided additional opportunity to review office operations and resource management, rather than be in a perpetual state of budget development, with little time available for analytical work. This change in emphasis should result in a more effective and efficient use of the resources.

Question:

2. Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

Response:

I would consider almost 100 percent of the Commission's budget as repetitious, from the "current operating level" perspective. Of course, changes in actual dollar levels do result from general inflation, pay raises, rent increases, and so forth.

Question:

3. What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?

Response:

I would envision no significant difficulties. This is because the Commission's programs are generally stable and are funded through a single salaries and expenses appropriation.

Question:

4. If you oppose the biennial budget concept, please give this subcommittee your reasons why.

Response:

This question is not applicable.

SUBCOMMITTEE RECESS

Senator HOLLINGS. The committee will be in recess until next Thursday morning, when we will hear from the Secretary of Commerce.

[Whereupon, at 3:40 p.m., Thursday, February 26, the subcommittee was recessed, to reconvene Thursday, March 5, 1987.]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

THURSDAY, MARCH 5, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:02 a.m. in room S–146, the Capitol, Hon. Ernest P. Hollings (chairman) presiding.

Present: Senators Hollings, Lautenberg, Rudman, and Kasten.

DEPARTMENT OF COMMERCE

STATEMENT OF THE HONORABLE MALCOLM BALDRIGE, SECRETARY OF COMMERCE

ACCOMPANIED BY:
CLARENCE J. BROWN, DEPUTY SECRETARY
BRUCE SMART, UNDER SECRETARY FOR INTERNATIONAL TRADE
DONNA TUTTLE, UNDER SECRETARY FOR TRAVEL AND TOURISM
KATHERINE M. BULOW, ASSISTANT SECRETARY FOR ADMINISTRATION
MIKE FARREN, DEPUTY UNDER SECRETARY, INTERNATIONAL TRADE ADMINISTRATION

OPENING STATEMENT OF SENATOR HOLLINGS

Senator HOLLINGS. This morning, we resume our review of the fiscal 1988 budget estimates with the first of two sessions on the requests of the Department of Commerce. Today, we have the Secretary of Commerce to address the overall budget of the Department. Next week we will have the usual hearing on NOAA's budget.

There is currently appropriated $2,089,132,000 to the Department for fiscal 1987. There are supplementals requested for the new retirement system, as well as the usual package of rescissions. The rescissions are expected to expire on March 15, just as they were rejected in previous years. If we get room in the Budget Resolution for the supplementals and take no action on the rescissions, the Department would end up with just over $2.1 billion for 1987.

The requests for 1988 also total about $2.1 billion. Major increases are requested for the preparatory activities of the 1990 Decennial Census; the continued automation of the Patent and Trademark Office and

NOAA's satellites and the Weather Service. We also have the usual package of no funds for EDA, trade adjustment, Sea Grant and Coastal Zone Management and the public television facilities.

The budget also proposes to transfer the Office of Minority Business Development to the Small Business Administration. New user fees are proposed totaling $130 million, including a ticketing charge to fund the U.S. Travel and Tourism Administration.

We are pleased to have the Secretary of Commerce, the Honorable Malcolm Baldrige with us this morning. The Secretary is accompanied by Deputy Secretary Clarence J. Brown; the Under Secretary for International Trade, Bruce Smart; the Under Secretary for Travel and Tourism, Donna Tuttle; and Katherine M. Bulow, the Assistant Secretary for Administration.

EXPANSION IN U.S. ECONOMY

Mr. Secretary, your complete statement will be included in the record, and you can highlight it or give it in full as you wish.

Secretary BALDRIGE. Thank you, Mr. Chairman. I would like to give a very short version, if I may, just to highlight.

The economy continues to expand. The control of Federal spending will take away the last obstacle to long-term growth and prosperity. That obstacle is the Federal budget deficit. The $2.1 billion budget for the Department of Commerce is part of the President's plan to come in at the $108 billion deficit target prescribed by the Hollings-Gramm-Rudman Act. [Laughter.]

I knew I would get that right.

PROGRAMS SLATED FOR ELIMINATION

Our 1988 budget proposes many of the same programs for elimination as the past 6 years, as you have noted, but also requires substantial increases for some activities and proposes compromises to resolve long-standing differences with Congress on others.

We have eliminated or reduced programs that are inconsistent with an appropriate Federal role or that are beneficial only to a few. At the same time, perennial phase-outs of the U.S. Travel and Tourism Administration, the National Bureau of Standards, Centers for Fire Research and Building Technology, and the Office of Productivity, Technology and Innovation are absent. Instead, alternative funding or organizational compromises are proposed. We have several new user charges that are requested to offset partially the costs of some programs that provide specific economic benefits to particular users.

RESCISSIONS

The programs targeted for elimination are the EDA and Trade Adjustment Assistance, TAA, Coastal Zone Management, Sea Grant and Public Telecommunications Facilities grants. By beginning to close out these programs in 1987 and rescinding available balances, we can save $259 million in 1987 and $302 million in 1988.

INCREASES

In the budget for the International Trade Administration, an increase of $4.1 million is needed to support the negotiations now underway on the GATT round. Another $1.5 million will allow ITA to carry out the semiconductor agreement and the machine tool VRA signed by the President last year. Finally, a total of $1.2 million is required for export license checks overseas to meet our statutory obligations under the Export Administration Act of 1985.

PREPARATIONS FOR 1990 CENSUS

Next year, we will begin final preparations for the 1990 census. A total of $245 million is needed in 1988 to conduct a full dress rehearsal and to develop the automated address listing for over 106 million U.S. households.

In 1988, we will report to the Congress on the exact wording of the questions for the 1990 census. The 1988 budget request is critical, obviously, to the success of the 1990 Decennial. The activities funded by this budget can't be delayed if we are going to have the complete and thorough coverage expected from the Decennial.

NOAA REQUEST

This year's request for NOAA is over $160 million greater than last year's proposal. The request provides $86 million to continue modernization of the National Weather Service through continued procurement of the next generation weather radar and development of the Advanced Weather Interactive Processing System.

Funding is also provided to plan and initiate NOAA-port, a system which will provide the capability to communicate real-time and near real-time data to NOAA and other external users. We are moving ahead with the procurement of the next series of geostationary satellites, and we are proposing a two-satellite polar-orbiting system that includes morning- and afternoon-orbit satellites launched at 15- to 16-month intervals.

NBS BUDGET

The National Bureau of Standards budget includes expanded programs to support American industry's efforts to increase its competitiveness in world markets. Additional research will be conducted on high performance composites, fiber optics and bioprocess engineering.

The spirit of the NBS compromise worked out with Congress last year is preserved. The Institute for Computer Science and Technology is funded at the agreed upon level of $7.5 million ($8.3 million with inflation). Construction of the Cold Neutron Research Facility authorized by the Congress in fiscal 1987 will continue in fiscal 1988. The Centers for Fire Research and Building Technology are merged into a single organization focusing on safety research and funded at $5 million.

PATENT AND TRADEMARK OFFICE BUDGET

The Patent and Trademark Office's program level will increase by $50 million to a total of $282 million in fiscal 1988. A total of $23.5 million of the increase will be used to support PTO automation. We continue to work toward the goal of reducing the average time it takes to process a patent application to 18 months. We are committed to achieve that 18 months pendency by 1989.

When we came in, Mr. Chairman, that patent pendency was headed toward 30 months. We are determined to take that to 18 months by 1989.

Senator HOLLINGS. They pay for themselves, don't they?

Secretary BALDRIGE. Yes.

Senator HOLLINGS. When we make money on them, they should get that kind of service.

MBDA TRANSFER

Secretary BALDRIGE. The administration is proposing to transfer funds of the Minority Business Development Agency to the Small Business Administration. The proposal will achieve savings by reducing administrative overhead and eliminating duplicative program activities.

Senator HOLLINGS. You went the other way 2 years ago. Do you think if we just hold up on that you will come back?

Secretary BALDRIGE. To tell you the absolute truth, I stayed out of the decision in the past. I think it can be done either way.

We are proposing new user charges in 1988. Beginning in 1988, USTTA will be funded by fees from the principal beneficiaries of its services, the airlines and cruise ship carriers.

Legislation will be proposed to establish a schedule of Federal marine fishing fees. In 1988, we estimate that a total of $99 million will be collected. Fifty percent of the fees collected, less administrative costs, will be shared with the coastal States to support their fishery conservation programs. On enactment, we will support an additional $29 million in fisheries programs.

New user fees will also be established in ITA to collect $9 million in 1988. Fees for Census services and products will be increased to realize $16 million. Fees for the National Weather Service data and product hook-ups now provided to meteorologists at a nominal charge will be increased to recover an additional $1 million in 1988.

Our 1988 budget provides the opportunity to resolve some of our long-standing differences and to move ahead together. It provides the funds where they are needed and institutes user charges for programs that provide benefits to specific users.

Tough actions are needed to eliminate unnecessary programs we can no longer afford, but this is the only way we can successfully reduce the Federal deficit.

Thank you, Mr. Chairman.

[The statements of Secretary Baldrige for the record follow:]

OPENING STATEMENT OF HON. MALCOLM BALDRIGE
SECRETARY OF COMMERCE

Mr. Chairman and members of the committee, I am here today to present the Department of Commerce's request for 1987 supplemental appropriations. These supplementals will provide for the three percent pay raise effective January 1987, increased costs due to the enactment of the Federal Employees' Retirement System, known as "FERS", by Public Law 99-335, and a transfer of Economic Development Administration (EDA) program funds to cover the closeout costs of programs proposed for termination. We also have two language supplementals for loan guarantee limitations.

PAY RAISE

The Department of Commerce will be able to absorb the entire cost of the January pay raise. In most cases, we will be able to do so within each program. In four programs, we are proposing to meet some of the costs by transfers of unneeded unobligated balances from other accounts.

We are proposing transfers of $450,000 to General Administration, Salaries and expenses and $332,000 to Economic and Statistical Analysis, Salaries and expenses, both from Regional development programs; $397,000 from the Economic Development Revolving Fund to EDA, Salaries and expenses; and $243,000 from Public telecommunications facilities, planning and construction to National Telecommunications and Information Administration, Salaries and expenses. These transfers, which total $1,422,000, do not affect budget authority and outlays.

FERS

The new retirement system established by Public Law 99-335

provides for the system to be fully funded by employee and employer contributions. That is unlike the Civil Service Retirement System where, for most employees, agencies and the employees contribute 14 percent of salary and costs above that are funded from the general treasury. While the new system will reduce the overall cost of retirement from the current estimates of between 25 and 29 percent of payroll down to about 22 percent of payroll, the cost to individual agencies will increase to pick up the amounts that would otherwise have been borne by the general fund.

With the exception of the Patent and Trademark Office, which has sufficient available funds to meet the cost of FERS, we are requesting supplemental appropriations of $15,530,000 for the full cost of FERS. That includes $400,000 to be transferred from EDA'S revolving fund to their salaries and expenses account.

Grants and Loans Administration

We are proposing to reappropriate $38,520,000 from the Economic Development Assistance Program for the Grants and Loans Administration to fund closeout activities from FY 1988 through 1992. The organization, to be located in the Office of the Secretary, will carry out residual activities associated with EDA, Trade Adjustment Assistance, public telecommunication facilities grants projects, and federal ship financing fund and fisheries loan fund projects. These programs have expired or are proposed for termination in the President's 1988 budget. Certain activities will have to be continued, including loan and grant monitoring and closeout, protection of collateral, audit resolution, and debt collection.

Language Supplementals

We are proposing a language change to revise the EDA limitation

on loan guarantees from the current limitation of $150 million of contingent liability to a limitation of $21,875,000 on total loan principal in 1987.

Lastly, we are proposing to establish a 1987 loan guarantee limitation of $50 million on NOAA's federal ship financing fund.

Attached to my written statement is a table detailing the supplemental appropriation requests. I will be pleased to answer any questions on these proposals.

1987 SUPPLEMENTAL APPROPRIATIONS REQUESTS
(Dollar amounts in thousands)

The 1988 President's budget transmits the following proposed 1987 supplemental appropriations for wage board pay increases and a three percent general pay increase effective in January 1987 and increased costs due to enactment of the Federal Employees' Retirement System Act of 1986, P.L. 99-335.

Bureau and Appropriation	Amount Requested	
	Pay	FERS
General Administration:		
Salaries and Expenses.....	$450	$464
The pay increase is to be derived by transfer from Regional development programs.		
Bureau of the Census:		
Salaries and expenses.....	...	1,433
Periodic censuses and programs.....	...	2,806
Economic and Statistical Analysis:		
Salaries and Expenses.....	332	408
The pay increase is to be derived by transfer from Regional development programs.		
Economic Development Administration:		
Salaries and expenses.....	397	400
The pay and FERS increases are to be derived by transfer from the Economic Development Revolving Fund.		
International Trade Administration:		
Operations and administration.....	...	2,237
Minority Business Development Agency:		
Minority business development.....	...	180
United States Travel and Tourism:		
Salaries and expenses.....	...	49
National Oceanic and Atmospheric Administration:		
Operations, research, and facilities.....	...	5,972
National Bureau of Standards:		
Scientific and technical research and services.....	...	1,368
National Telecommunications and Information Administration:		
Salaries and expenses.....	243	213
The pay increase is to be derived by transfer from Public telecommunications facilities, planning and construction.		
Subtotal, Pay and FERS increase supplementals.....	$1,422	$15,530
By transfer.....	(1,422)	(400)

	Amount
Total, Pay and FERS increase supplementals.....	16,952
By transfer.....	(1,822)

Other supplementals:

General Administration:
Grants and loans administration..... 38,520

The Grants and Loans Administration's close-out activities 1988-92 will be funded by a reappropriation of $38,520,000 from the 1987 Congressional appropriation for Economic Development Assistance Programs. The Grants and Loans Administration will close out the programs of Economic development assistance, Trade adjustment assistance, NOAA fisheries financial assistance programs, and Public telecommunications facilities, planning and construction.

Total supplementals.....	$55,472
By transfer.....	(1,822)

Prepared Statement of Hon. Malcolm Baldrige

Mr. Chairman and members of the Subcommittee, the economy continues to expand. The control of Federal spending will remove the last obstacle to long-term growth and prosperity. That obstacle is the Federal budget deficit. The $2.1 billion budget for the Department of Commerce is part of the President's plan to meet the $108 billion deficit target prescribed by the Gramm-Rudman-Hollings Act for Fiscal Year 1988.

Economic Improvements

For each of the past few years I have been pleased to highlight for you the improvements in the economy.

- Inflation in 1986, at about 1 percent, was its lowest rate in over 20 years.

- The prime rate, and other key interest rates, are less than half their 1981 levels.

- Over the past four years, 12.4 million jobs have been created, and civilian unemployment at 6.7 percent is at its lowest level in almost seven years.

- Between 1981 and 1986, numerous changes in the tax code, including a complete overhaul last year, have simplified reporting, made the tax law more equitable, and significantly lowered tax rates for individuals and corporations.

- Real after-tax personal income has risen 15 percent during

the last four years, and our overall standard of living has increased.

We can assure continued economic growth by adopting the goals set forth in the President's 1988 budget and legislative programs. The President's program:

1) meets the Gramm-Rudman-Hollings deficit target of $108 billion;

2) requires no new taxes;

3) reforms, reduces, or terminates an assortment of programs, saving taxpayers $19 billion in 1988 alone;

4) preserves Social Security;

5) provides for 3 percent real growth in spending for national defense.

Before turning to the specifics of the Commerce budget, I want to mention the competitiveness initiative that the President announced in his State of the Union message. The goal is to assure American competitive preeminence into the 21st century. In many cases legislation will be required to fulfill the Federal Government's responsibilities, and Commerce will play an active role in carrying out this program.

Since I first came to the Department of Commerce six years ago, competitiveness has been the dominant concern of our policies and operations. Our first Departmental goal deals directly with this subject: Increasing America's Competitiveness in the World Economy. Working with American business and industry to increase its productivity and competitiveness at home and abroad is what

the Department of Commerce is all about. And we operate a wide range of programs in the Department that give real meaning to our goals. For example, the Department promotes U.S. exports abroad. We have worked to identify and reduce trade barriers, to promote a new round of GATT negotiations to begin eliminating barriers, and to establish positive trade policies -- such as protection of intellectual property rights -- that will affect the competitiveness of U.S. goods and services. We are promoting the development of new private-sector industries to take over selected functions -- satellite operations, for example, that have traditionally been performed by the Federal Government. Our National Bureau of Standards (NBS) works closely with private industry to promote the development, and more importantly, the application of new technologies. And we combine our statistical and business capabilities to produce competitive assessments that private firms can use to compare themselves with worldwide trends. So we, as a Department, are leaders in the President's competitiveness initiative, and many of the increases included in our 1988 budget support that initiative.

1988 Commerce Budget

Our 1988 budget proposes many of the same programs for elimination as the past six years but also requires substantial increases for some activities and proposes compromises to resolve long-standing differences with Congress on others. We have eliminated or reduced programs that are inconsistent with an appropriate Federal role or that are beneficial to only a few. At the same time, perennial phase outs of the U.S. Travel and Tourism Administration (USTTA), the NBS Centers for Fire Research and Building Technology, and the Office of Productivity, Technology and Innovation are absent. Instead alternative funding or organizational compromises are proposed. Several new user charges are requested to offset partially the costs of some

programs that provide specific economic benefits to particular users.

Rescissions

The programs targeted for elimination are the Economic Development Administration (EDA), Trade Adjustment Assistance (TAA), Coastal Zone Management (CZM), Sea Grant and Public Telecommunications Facilities (PTF) grants. By beginning to close out these programs in 1987 and rescinding available balances, we can save $259 million in 1987 and $302 million in 1988.

Over the last seven years, I have urged the termination of EDA, and Congress has reduced appropriations for this program by about 70 percent. It is time now to eliminate the remaining $192 million. Today our healthy national economy is a powerful generator of employment. Many state and local governments, furthermore, are recognizing that local economic development is their responsibility, and they are developing aggressive programs to create jobs and assist businesses. Appropriate Federal assistance for local economic development will remain available through HUD's community development block grant program.

I should stress that I am especially concerned about the $80 million in "special" projects that have been included in EDA's budget during the past four years. These projects are substantially larger than regular projects and bypass competitive EDA review procedures. When these projects must be funded out of EDA's regular appropriation, they replace projects that have been subjected to a competitive review process. Often they are not projects of the type contemplated by the Congress when it established EDA. This practice of appropriating funds for special projects to EDA should be stopped.

TAA funding for firms has also been reduced by 57 percent since 1981. We have spent $133 million on the TAA program since it was transferred to the International Trade Administration (ITA) in 1982. Management of TAA has improved, but program performance has not. In 1985, the Inspector General found that only 5 percent of the firms entering the program survive. The program raises false expectations that Government intervention can rectify competitive disadvantages. Congress terminated the TAA loan program last year. Congress should complete the job by rescinding the remaining 1987 grant program balance of $11.4 million and terminating the program in 1988. The focus of adjustment should be on the human side, and the President's budget recognizes this in requesting $1 billion for assistance to dislocated workers and $800 million for training. This is obviously much more than an even trade-off on the trade adjustment effort.

The Federal objectives of both the Sea Grant and CZM grant programs have been achieved, and the states should now accept responsibility for any continued funding. Almost $1 billion has been spent on the two programs. Federally-approved CZM programs are in place in 29 states covering 94% of the Nation's coastline, and 21 colleges and 8 institutions around the country have approved Sea Grant programs that cover all coastal states and Puerto Rico. I would emphasize that the budget does include funding for research and protection of biologically important estuarine areas as well as for evaluation of state CZM programs and monitoring of Federal activities to encourage consistency with state plans.

Similarly, since 95% of the Nation is currently served by radio and television, there is clearly no need to continue funding the PTF program. This program has served its purpose with over $305 million having been spent since 1963.

1988 Increases

The 1988 budget provides increases to meet requirements for priority programs for the Nation. Program increases totalling $176.9 million are proposed in the Commerce budget to meet pressing needs in the areas of trade promotion and administration, research to assist American industry, patent office automation, and weather technology. In addition, we are proposing the consolidation of assistance to minority business in the Small Business Administration (SBA). Resources for minority business assistance functions, previously carried out by Commerce, are included in the SBA budget request. The remainder of my testimony highlights these changes and discusses the new user charges that we are proposing to offset partially program costs.

In the budget for the ITA, an increase of $4.1 million is needed to support the negotiations now underway on the General Agreement on Tariffs and Trade -- the GATT negotiations. These funds will support research and analysis for U.S. bargaining positions. Another $1.5 million will allow ITA to carry out the semiconductor and machine tool voluntary restraint agreements signed by the President last year. The monitoring of price, cost of production, and shipment data under these agreements is vital to their success. Finally, a total of $1.2 million is required for export license checks overseas to meet our statutory obligations under the Export Administration Amendments Act of 1985.

Next year we will begin final preparations for the 1990 Census. Our current estimate for the total cost (1984-1993) of the Decennial is $2.6 billion. A total of $245.4 million is needed in 1988 to conduct a full dress rehearsal and to develop the automated address listing for over 106 million U.S. households. In 1988, we will report to Congress on the exact wording of the questions

for the 1990 Census. We have updated the design of the Census to overcome control, processing and coverage problems encountered in 1980. The 1988 budget request is critical to the success of the 1990 Decennial. The activities funded by this budget cannot be delayed if we are going to have the complete and thorough coverage expected from the Decennial.

This year's request for the National Oceanic and Atmospheric Administration (NOAA) is over $160 million greater than last year's proposal. The request provides additional funds to continue modernization of the National Weather Service (NWS), including:

- $14 million to continue procurement of the next generation weather radar (NEXRAD);
- $10.8 million to continue development of the Advanced Weather Interactive Processing System (AWIPS);
- $3.2 million to start full production of the Automated Surface Observing Systems (ASOS);
- $2.5 million to prepare a test of these in a field setting.

Funding is also provided to plan and initiate NOAA-Port, a system which will provide the capability to communicate real-time and near real-time data to NOAA and external users. We are moving ahead with the procurement of the next series of geostationary (GOES) satellites, and we are proposing a two satellite polar-orbiting system that includes morning- and afternoon-orbit satellites launched at 15 to 16 month intervals.

The NBS budget includes expanded programs to support American

industry's competitiveness in world markets. Additional research will be conducted on high performance composites, fiber optics, and bioprocess engineering. NBS research on process and quality control will enable industries to monitor product quality during production and make immediate adjustments in the manufacturing processes. A pilot program to convert reference data to software will test opportunities for providing users with improved access to essential NBS reference materials.

The spirit of the NBS compromise worked out with Congress last year is preserved. The Institute for Computer Science and Technology is funded at the agreed upon level of $7.5 million to which $800,000 has been added to cover adjustments for inflation. Construction of the Cold Neutron Research Facility authorized by the Congress in FY 1987 will continue in FY 1988. This facility will be fully operational in 1992 and will provide new measurement capabilities for advanced materials such as polymers, ceramics, and metal composites. The Centers for Fire Research and Building Technology are merged into a single organization focusing on safety research and funded at $5 million.

The Patent and Trademark Office's (PTO) program level will increase by $50.3 million to a total of $282.3 million in FY 1988 with user fees representing 52% of that amount. A total of $23.5 million of the increase will be used to support PTO automation. We believe the automation project is progressing quite well, particularly considering the system is at the leading edge of technology. Once operational, the system will greatly benefit America's competitive position by reducing patent pendency and improving the quality of the patent search.

We continue to work toward the goal of reducing the average time it takes to process a patent application to 18 months. We are committed to achieve 18 month pendency by 1989. We have made considerable progress. At the end of FY 1986, patent application

pendency was 21 months. It would have been 36 months by now if we had not begun our pendency reduction program in 1982. Estimated growth in fee collections from $131.8 million in 1987 to $146.8 million in 1988 reflect the growth in patent and trademark applications. The 30 percent Congressional limit on automation funding from fees is followed in PTO's budget.

One final program increase deserves attention. Improved financial management is a top priority for this Administration and is especially critical in an era of leaner budgets. To achieve our financial management goals, we need a system in the Department that can provide us with financial and other management information quickly and in a form that managers can use. None of our eight existing accounting systems has that capability. In the budget for the Office of the Secretary, $1.1 million is requested to extend the model accounting system now being developed at NBS to the other Commerce bureaus. There should be no further delay in funding this effort.

Minority Business Development Agency (MBDA) Transfer

The Administration is proposing to transfer MBDA functions to SBA. This proposal will achieve savings by reducing administrative overhead and eliminating duplicative program activities. The direct services of the Business Development Centers (BDC's) will be continued at the current level and administered under SBA's Minority Small Business/Capital Ownership Development Program. SBA is requesting $36 million for the BDC's and support activities. MBDA's other functions will be absorbed by SBA. The Department is requesting $4.6 million to close out these activities in Commerce in the first quarter of 1988.

User Charges

We are proposing several new user charges in 1988. Beginning in 1988, USTTA will be funded by fees from the principal beneficiaries of its services -- the airlines and cruise ship carriers. Three million dollars is provided for program operations through the first quarter of FY 1988 with the remaining $9.2 million to be derived from the new fees. This represents a shift in Administration policy from prior years which states if USTTA is to be continued, it should be funded by the beneficiaries. It reflects our budget's overall approach of working with Congress to achieve a mutually acceptable position.

Two new user fees will also be established in ITA -- an export license processing fee and an export services account fee. On average, a $50 charge will be assessed to applicants for processing export licenses. We are currently on a discriminatory fee schedule that neither discourages exports nor disproportionately burdens small and medium size businesses new to exporting. This fee partially offsets the administrative costs of the program. Businesses and individuals who wish to subscribe to an Export Service Account to receive customized information from ITA's automated Commercial Information Management System (CIMS) will be charged a $150 annual subscription fee for this service.

Legislation will be proposed to establish a schedule of Federal marine fishing fees -- a $6 permit to fish in marine waters for persons ages 16 to 64, a $25 Federal stamp to buy or sell certain fish, a fee of 1% of ex-vessel value for the landing of certain fish for commercial purposes, and a $25 stamp to fish for species declared "game fish." In 1988, we estimate that a total of $99 million will be collected. Fifty percent of the fees collected, less administrative costs, will be shared with the

coastal states to support their fishery conservation programs. The Federal share will be used to offset a part of the cost of Federal marine fishing management and conservation programs. Upon enactment of the required legislation, the Administration will submit a budget amendment for $29 million in additional Federal fishery programs in anticipation of increased Federal revenues.

Fees for Census services and products will be increased to realize $16 million. Also fees for the NWS data and product hookups now provided to private meteorologists at a nominal charge will be increased to recover and additional $1.0 million in 1988. Existing fees will also be increased for some NBS services and for NOAA's satellite data services.

Our 1988 budget provides the opportunity to resolve some of our long-standing differences and to move ahead together. It provides the funds where they are needed and institutes user charges for programs that provide benefits to specific users. Tough actions are needed to eliminate unnecessary programs and ones we can no longer afford, but this is the only way we can successfully reduce the Federal deficit.

TRADE DEFICIT

Senator HOLLINGS. Mr. Secretary, we appreciate your statement. I told the Secretary, I am glad to see him. My weather report this morning said he was swept away in a flood in Santa Fe. I am glad to see him.

Secretary BALDRIGE. I told the Chairman, "Very funny. Very funny." [Laughter.]

Senator HOLLINGS. At least we know what is wrong over there.

What would you say is wrong with our deficit and the balance of trade? Do you agree with the Congress or the President? What in the world should we do? You and me keep meeting and praising each other on how we are working so hard, and we are going backwards.

Secretary BALDRIGE. We have to get them both down. In my opinion, people look at the trade deficit through two different sets of glasses. The way I look at it, Mr. Chairman, is this: The trade deficit is economically unsustainable. That is not a political statement; it is just an economic fact. We can't, the world can't go on with the Japanese running the kinds of surpluses they are and we running the kind of deficits, because what will happen—and this is regardless of government intervention, just leave that to one side—inevitably, we are going to get competitive with our exports in one of two ways.

The first way is if we increase our productivity, we become more competitive. We will get more exports and we will raise our standard of living. That is the preferred way. But let's say we don't do that. Let's just say we keep on with the high budget deficit, become no more competitive, our productivity per hour doesn't creep up. Then we will become competitive by the dollar sinking lower and lower and lower until it reaches an area where we are not going to hold the world as much as we do now. We will become competitive that way.

But in becoming competitive that way, by lowering the value of the dollar, we will definitely have to endure a much lower standard of living. So we will become competitive. The question is how will we do it.

Part of the answer, I am convinced, is as we reduce the trade deficit, I hope the right way, I believe the way, but as we reduce it, unless we reduce it by the budget deficit, we are going to depend more and more on investment from abroad that may not be forthcoming, either the Japanese and others investing may back off.

So part of that definitely is reducing the Federal budget deficit.

PRODUCTIVITY

Senator HOLLINGS. Mr. Secretary, that is a given with respect to the budget deficit, as you well concede. The distinguished ranking member and I have been working on that. It is our responsibility, and we hope to hold everybody's feet to the fire. But having gotten the dollar down, it is 25 percent of the yen and 20 percent of the mark, you can quite quickly say that is not necessarily truthful, because those trade deficits tend to increase.

When you look at the exports and the productivity side, we find out that that, too, is not the solution. In other words, we had a $4 billion in-

crease in the deficit and balance of trade this January, and we look at our exports. On the one hand, we see what people are buying. The largest export that we have is not that large an export, and that is scrap paper and scrap steel. I can give you a list of given industries, starting with my own back yard in textiles coming on up the line with respect to so-called productivity.

That is one that is always a matter of—you are a former business executive. That is the first order of business, is to get yourself competitive, get yourself productive, and cut costs and increase productivity.

Our textile industry didn't even start with the Japanese in the last year or 5 years or 10 years. We started 35 years ago. Over 30 years ago, Tom Dewey, who represented the Japanese, chased me around the hearing room of the U.S. Tariff Commission, they used to call it. It was very interesting.

Senator RUDMAN. Did he catch you?

Senator HOLLINGS. No, he didn't catch me. Yes, he did. Excuse me. The Commission caught me. We went over, and Jerry Persons, who ran Eisenhower's office said, "Go in and see the chief," so we went in and saw President Eisenhower. He said, "Don't worry about it, you will win that case." Of course, we lost it. Nothing happened.

So for sheer existence, your message of productivity is long since appreciated and has come home to the industry itself. They put in over $8 billion in 5 years. They have increased the productivity each year for 10 years an average of 5 percent. I will take, as I have now just seen Korean textile industry, I will take any of them in downtown Greenville, Spartanburg or any of the other places; show them the facilities, the productivity.

TEXTILES

I will show them computerization in one textile facility that the Defense Department would like to get their hands on. In fact, we had a sweet-heart deal working and we got too advanced, and they didn't want to give it over to Defense.

It is very, very impressive. So I know about my productivity, because I used to have to eat that dust in my early political days. I got sick and tired of that fuzzy stuff in my eyes and all over my head. It totally covered you just trying to make a friend and get a vote. That is gone. That bale of cotton comes in on a car, and no human hand touches it. It goes all the way through. In the weave room, where they had 115, now they have got less than 15.

In the power plants, I know the Koreans would like, in a way, to get that machinery Stone's has. You and I are paying for T.C. squared up there in Raleigh, NC, to get advancement. By the way, you have redlined that, but your Defense Department comes through with a proposal for it. That is your coordination.

I mean, your Department of Defense is putting a lot of money in textile and apparel stuff, and you have it cut out under your budget. You ought to call on Cap Weinberger.

Mr. BROWN. If you can get him to pay for it, it is pretty clever.

Senator HOLLINGS. Get him to put it in there.

Secretary BALDRIGE. He had a lot of projects I would like to have.

Senator HOLLINGS. At Stone Manufacturing putting the button on the parka and everything, they have mechanized. They have cut back on the employees. In all candor, I am dead serious that that isn't necessarily what is to be worked on. It is to get productivity on the budget deficit.

I am totally persuaded now that the element of competition is the government itself, you and me here in Washington. Everybody has got that comparative advantage of their government on their side. Our government is not on our side at all.

OFFICE OF TEXTILES AND APPARELS

The textile office has been cut back. Over the years, we have been beating on the doors. We put in the Office for Textiles and Apparel, but we are not using that office. The workload quadrupled there, and you cut back on the numbers. You can't use the money we gave you for anything else, so it doesn't make sense.

I think that 47 that you have budgeted there now is 10 more than the staff of 37, I guess it is; I don't know. They prepare these smart questions for me, but I think you are authorized 47 and you only have 37 there. If you save the ten-plus, you could not have put the money in any other particular endeavor.

So when we see that, that indicates to us, even with the increased workload, that we are not on top of it. In a general sense, on Customs, we just got a CBO study. We don't have enough at Customs. It seems like if Commerce was really trying to get the laws enforced, it would urge them to put on more Customs agents. There is no comment or complaint.

I am at a loss. You and I, Mr. Secretary, went through on your authorization the other day before Commerce, so it is not my intent to beleaguer you, sir. But I am prepared to ask a few more questions here. Let me yield to my distinguished colleague.

Senator RUDMAN. Thank you, Mr. Chairman.

TRADE NEGOTIATIONS

Mr. Secretary, going back and reading some history of the United States and worldwide trade negotiations with the Japanese from the period 1928 to December 7, 1941, and the negotiations ended that day in a rather spectacular way, I got the distinct impression from reading that—and I don't mean this as a criticism of the Japanese, I am just talking about their culture—that they have a very unique way of negotiating. I guess I would describe it in the English language as being long and tedious, obstructionist and when agreements are reached, of finding ways to observe them, maybe in the letter but not in the spirit.

I don't know how long we are going to let that happen here. I have a sense that if the administration lets it happen much longer that the

Congress is going to find ways to deal with it in a very bipartisan way. This has got nothing to do with protectionism. It has to do with fairness.

SEMICONDUCTOR AGREEMENT

I have a couple of items. Information that I get from my friends in industry tells me that the semiconductor agreement—which we commended you for and continue to commend you for, you did a first-grade job in reaching an agreement—is now being observed more in the breach. The agreement is really a joke, and again, we are being made fools of. Unless we watch ourselves, we are going to lose a major portion of the industry.

How long is it going to take us to simply take the gun out of the holster and fire the first bullet, to put it in rather frank terms.

Secretary BALDRIGE. End of this month.

Senator RUDMAN. Good. That is a very good answer, and I was hoping that is what you would say.

Question two, and I only have three: We had Ambassador Yeutter before us last week, and I raised an issue with him. He said it was more in your area of responsibility, which I think is correct, and I am sure you are familiar with this whole absurd matter of American companies being unable to do major construction in Japan for a whole number of reasons.

You know, the Congress can either get protectionist or we can do what the administration is saying, and let's make sure that we are treated fairly overseas.

Now, according to the numbers we have, there are about $200 billion in construction projects over the next 10 years in Japan. The first major one is the Kansai Airport.

All right, this one is $6.5 billion. Thirty-five American companies were qualified. Bechtel got a contract for $200,000 to study terminals.

Yet Japanese firms come in here and build anything they want to build; that is fine. Why, they are even building the U.S. Embassy in Cairo because they competed and they won.

Are we going to do something about this? Are we going to really tell them, in no uncertain terms, "What is good for the goose is good for the gander"?

KANSAI AIRPORT

Secretary BALDRIGE. Kansai has that.

My recommendation is that the administration should not take action until we see what happens; then we would be able to take appropriate action if this doesn't work out.

Senator RUDMAN. What would that appropriate action be, I guess I would like to know?

Secretary BALDRIGE. Well——

Senator RUDMAN. Generally.

Secretary BALDRIGE. This would be my stand, not the administration's stand, to take some action against their construction business in the United States. They are doing about $2 billion a year, Japanese companies, here in the United States.

Now, I don't think we will have to do that, I really don't, because the end of the story hasn't been written yet. We have been very exercised about this whole situation, because the President of the Kansai airport consortium was making statements that we had to understand why North American firms couldn't be allowed to bid there. It was on Japanese soil, and the soil types were different, and you are talking about the safety of the Japanese people and this had to be done by Japanese companies.

So we pointed out how ridiculous that was, that the record around the world of U.S. construction companies compared to the Japanese and so forth, and also that this was an issue that could be understood by the man on the street. It wasn't super computers or something like that. It was the U.S. construction area is what that was.

I went to see the Prime Minister on this, and Mr. Nakasone looked me directly in the eye and said, "American firms will get a fair chance at this work."

There are some saying we ought to take the 301 action right now. I don't think so. I think about taking strong actions against the Japanese as much as anyone in the government, and I don't think we ought to act until we see what happens. I think because the Prime Minister, the head of the government looked me right in the eye and told me that, I think that he will honor that commitment.

Senator RUDMAN. How long will that take to find out?

Secretary BALDRIGE. Well, Bruce, what would you think?

Mr. SMART. We, of course, already have some business. The biggest piece of business that we have is the equipment business with Caterpillar for the contractors that will be building the island, not the island itself. The construction of the island, which is the first phase of this project, is something that basically requires in its larger sense the management of Japanese labor or Japanese trucks and so on and so forth.

This is something that Steve Bechtel has told me on two occasions, it is not what he thinks American contractors can effectively do in Japan.

So a large part of the first phase really are opportunities in supplying equipment or perhaps in supplying design or consulting services on specialty items.

The test will be in the second phase, when it comes to the actual layout and construction and design of the airport itself on the island. Takeuchi, the head of Kansai International Airport Company, has assured us that he will make available to the U.S. companies access to his designers, access to prime contractors and subcontractors, and that as prime contractors, we will be considered equally with other qualified Japanese companies.

He resists the idea of anybody to bid, so-called overbidding, but is determining a qualified list of bidders. Foreign companies will be treated equally. When we come to one of those circumstances and he doesn't do it, I think that is the time.

Senator RUDMAN. I get the feeling that you could build a pretty good coalition here in the Congress between labor and management on the next piece of legislation coming through.

FREE TRADE

People here on both sides of the aisle could very quickly pass a very effective, highly protectionist measure against Japanese construction in this country. I think it would probably get 99 votes in the U.S. Senate, maybe 100, and I dare say that the chairman could vote for it along with most people on his side of the aisle. I know that most of my side would. We are getting to that point.

If you want to go back and read some great history, read what I have been reading from 1928 to 1941. This is nothing new. This is the way they deal, and they are very good at it. I will tell you something. As one who has been a free trader, I hope I can get on the other side of this argument and become very, very retaliatory on the way I do things and the way I vote around here.

I hope they get that message. Because if the administration has had 6 years to do it—I don't fault the Secretary, because I know his attitude, and his testimony has been frank; but he has not had the support of the Cabinet Council in a number of areas—but we are going to get going on this pretty quickly around here, and there is going to be some coalitions that are really going to make some people get very startled.

I don't know whether we are going to do it or whether we won't do it, but the fact is that I am not terribly happy with this, nor am I with their whole attitude towards many of our products. I know people in our very industrialized State of New Hampshire who cannot sell their high-tech products in Japan, not because of any apparent government bars, but because of the unspoken rules in Japan against dealing with those companies.

Mr. SMART. Senator, how we can send companies in the early 1940s out of the Far East. Having worked with them as a private businessman with a license arrangement, having now been to Japan five times and negotiating with them here, equally, a lot of times formally and a lot of times informally, I understand your frustration. Possibly, I can share it.

Senator RUDMAN. I expect you know more about it than I do, Mr. Smart.

Mr. SMART. The Secretary is absolutely right in advocating effective action, but the key is to find the action that will be effective as opposed to action that merely hurts us.

Senator RUDMAN. I have one other question.

SUPER COMPUTERS

Secretary BALDRIGE. Senator, can I just bring up another quick example of where I hope we see some action soon?

In these high-tech fields you mentioned, we have as much as been told flat out by the Japanese negotiators not to expect to get any billings for a few years from the Japanese government entities or educa-

tional institutions, which are two of the largest segments of the market for super computers. Even though we have quite possibly the lowest cost and certainly the most effective super computer, we have over 80 percent of the world market, but less than 25 percent of the private installed base in Japan.

Again, the typical case of protecting a fledgling industry in Japan until it gets big enough to go out and export on its own. At the same time they are doing that to our super computer industry, there is a Japanese company, Fujitsu, that is trying to buy Fairchild.

Never mind the technical plus or minus. Fairchild has a distribution market system through the whole United States. No Japanese firm has such a system in the United States, and Fujitsu makes super computers. So at the same time they are denying us the market for super computers, they are trying to buy one of our companies to sell super computers to the American market. There is something unfair about that.

Senator HOLLINGS. What do you do about that? Excuse me for interrupting.

Senator RUDMAN. Go right ahead.

Secretary BALDRIGE. We are bringing it up in the Economic Policy Council. I don't know when that will be held.

Mr. SMART. Supposed to be within the month, Mac, probably in a couple of weeks.

Secretary BALDRIGE. They will help decide. The first question will be whether to allow Fujitsu to buy Fairchild. The second question is, do we have a 301 case. Should we institute a 301 case on super computers against Japan?

Senator HOLLINGS. Who is on that Economic Policy Committee?

Secretary BALDRIGE. Jim Baker is the Chairman of it; the State Department; the Commerce Department; USTR.

Senator HOLLINGS. Then it is in the hands of the Philistines! Do you think we will win it? Is that correct? That is our trouble. You have given the best example that I have heard of, and there is our crowd.

Secretary BALDRIGE. I believe we will win it, sir.

Senator HOLLINGS. Excuse me. Go right ahead.

LANDSAT

Senator RUDMAN. I just have one more question. I want to talk about LANDSAT just for a moment. You sent us up a plan and asked us for a reprogramming. We decided not to do that. The reason we decided not to do it is because no one really thought that the one satellite system of $259 million would result in commercialization.

We are concerned that if we started down this road that we would start to put a real crunch on other funds which we think are very important for your agency.

I think it is about time to fish or cut bait. I think most members of the subcommittee think in this case that cutting bait doesn't mean massive cuts in fishery programs in NOAA. Whether you agree with that or not, that is the political reality here in this committee and probably in the Congress.

And yet LANDSAT is very important. I don't know if you saw a very interesting piece in this Sunday's Washington paper about the contractor—I guess it is here in the area—but it has got real problems. I don't know if you saw this, Mr. Secretary. If you didn't, it was well timed.

If you haven't seen it, I will get it for you.

Secretary BALDRIGE. No, I haven't.

Senator RUDMAN. And there is also a magazine article.

Can we expect to sit down at some point here and have a rational discussion about how this is going to go? Because we are about to lose it, and we went through some difficult times together last fall trying to put this together, and we weren't able to do it.

We, I guess, share the same goals. I think we have a different way we may want to get there.

Secretary BALDRIGE. We have over at OMB now a proposal for two LANDSATs. In fact, the one LANDSAT proposal was turned down by the Senate. I had a letter from Senator Hollings himself saying that was not acceptable.

Senator HOLLINGS. And you understand why. I mean, in other words, in order to go through with the two launches, the launch vehicle and everything else, it costs at least another $150 million overall. We would have to be coming to the Department of Commerce budget and making it up.

I would be trying to cut you $150 million in order for you to go forward with that kind of a program.

Senator RUDMAN. We had kind of enough of that last year. That was a very painful exercise which the chairman and I don't want to go through. At least he is chairman now. He can do it this year.

Senator HOLLINGS. He is still the chairman. You ought to see how he acts.

[Laughter.]

Secretary BALDRIGE. But we do, in answer to Senator Rudman, we have submitted a proposal, a new proposal to OMB. I can't say anything about whether it is going to get out of OMB or not.

Senator HOLLINGS. Do you favor it? Do you think we ought to go forward with it?

Secretary BALDRIGE. Two of them.

Mr. BROWN. It is the inside proposal, and it will be more expensive and will be for a period of time. The Federal Government subsidizes the two LANDSAT operations, in the hope of eventually getting a proposal that will embrace some other activities which enhance the potential for it being commercially viable and also technologically viable.

But it is still a subsidized proposal.

Senator HOLLINGS. It would have to be in order to commercialize it.

Senator RUDMAN. That, of course, was Senator Hollings position, and my position last year. We have to face that reality. There was just no way to get where he wanted to get on the financial base that we were operating on.

So I would hope that your proposal might be to move there and we might have the chance to work with you on that.

Mr. Chairman, Senator Weicker has some questions; Senator Domenici; Senator Specter, and I would like to submit those to the Secretary for the record.

Senator HOLLINGS. Very good. They will appear at the conclusion of the hearing.

Senator RUDMAN. Thank you. Those are the only questions I had, and I am sure that there are many others that we share, and I shall stay as long as I can.

Senator HOLLINGS. I appreciate it.

Senator Kasten?

ITA BUDGET

Senator KASTEN. Mr. Chairman, thank you. I have some questions, Mr. Secretary, on the budget for the International Trade Administration, particularly Trade Development.

If I understand all this correctly, 38 of the 66 positions to be reduced relate to management efficiencies. What are you talking about? Are these consolidations? Are these positions being replaced by automation? What kind of management efficiencies do you have in the trade development suggestions that you are making here?

Secretary BALDRIGE. Bruce?

Mr. SMART. I think Mike is the most familiar here.

Senator KASTEN. I am referring to page 19 of your prepared document here. You have got a footnote down at the bottom. The overall question is, we are trying to deal with trade. Are you serving people? It seems to me that to cut in half the Trade Development people at a time when we are trying to deal with trade might not make sense. I am asking you to explain why this is a good thing to do.

Mr. FARREN. All told, there were over 500 people in trade development. Of 38 positions, 33 would be out of the sectoral analysis area.

POSITION REDUCTIONS

Senator KASTEN. My point was you reduced 66 positions. You took half of them or a little more than half. Of the 66 you reduced, you took 38 out of one section, and that was the Trade Development section.

Why is it so special? Why were there these opportunities for consolidation and positions being, whatever, in that particular area when you are trying to struggle? If I were to do it, not knowing anything about the Department, that would be the last thing I would do. I would consolidate some people somewhere over there. If OMB said you have got to consolidate X number of people, Trade Development might be the last place I would pick.

Why was it this area you picked for one half of the reduction?

Mr. FARREN. By virtue of the solution, Trade Administration is an area which is increasing: the import administration and the counterveiling duty area. So that is an area where we have had to add people. Despite management efficiencies, we still need additional people.

In International Economic Policy, that is the area that will be taking on the GATT responsibility.

With respect to that and the bilateral discussions that we have had going in various countries, that, despite efficiencies, requires an increase.

U.S., and Foreign Commercial Service, in fact, has taken budget reductions. It has a relatively small staff here in Washington. Most of the staff is out in the field. There is little opportunity through management efficiencies, and automation to reduce staff in that area. Trade Development, as a consequence, is in a position, as we become more efficient through the addition of data processing equipment, word processing equipment, it is in a position to take some of those cuts more readily. It simply is not an area where we are required to add.

Senator KASTEN. Is it in a position to take more cuts more readily because you had to knock off a certain number of people and this was the place of least resistance, or is it because you recommend these changes in the Trade Development area? That is what I am trying to get at.

Mr. FARREN. It is the area, frankly, where the workload ends up being more consistent, where there is not a significant growth in terms of the workload. It is an area where we have had some retirements of people that allow us to basically backfill a more efficient way. It is an area where, through word processing and other automated efforts, we are in a position to, in essence, reduce the number of people by increasing further capital investment.

Our opportunity is to get the same work product out with less people.

Senator KASTEN. And have you got more automation in trade development area than you do in these other areas? There are seven people that you are adding; I guess they are probably license checkers or something in the foreign and commercial services area.

Secretary BALDRIGE. Senator, can I put that in our perspective? There is no question we had to make some cuts to meet Hollings-Rudman-Gramm. That is it.

Now, the place where we could take the cuts the easiest in ITA was in this area. I didn't particularly like to take them, but I can defend them as being the best ones.

We can make, we can have a reason for keeping almost anything that helps.

Senator KASTEN. That is what I wanted to know, if there was something going on there or how it was decided.

Secretary BALDRIGE. This was the least worst place to cut.

Senator KASTEN. That is fine. I have got a couple of other questions I want to submit for the record, Mr. Chairman, but I have no further questions at this time, and I thank you.

Senator HOLLINGS. I thank you for an excellent question.

TECHNOLOGY SALES

With respect to technology, Mr. Secretary, there was an article to the effect that you were going to reduce the restriction on the sale of technology advice and then again, the Defense Department says that is not what we think. Who talks for the administration and what are we going to do? Let the record show that he pointed at that red tie. They elected Dick Perle.

Secretary BALDRIGE. I am not going to get into that part of it.

Senator HOLLINGS. We have got to get into it.

Secretary BALDRIGE. I am going to get into it this way. I am not going to get into it against my sister Department. Everything I said we will do, and it will be done. I will do or it will be done.

Senator HOLLINGS. What, generally? Give us a feel for that. Why have there been frustrations not in the public interest?

Secretary BALDRIGE. Let me break it down into two parts. One, our legislative proposals which the Congress has to pass; and the other major part are Commerce Department actions that we can take ourselves.

On the legislative proposals, it would have to go through Congress. Most of them deal with foreign availability. Two aspects of foreign availability determinations are particularly problematic. One is the amount of time it takes to get foreign availability decisions through, we have proposed new, strict time limits.

The other is what is foreign availability, a definition. We argue too much about definitions. Our proposal takes the definition in the statutes and makes it a lot simpler. These proposals are two steps forward, but they have to be done by legislative fiat and not by the Commerce Department. Our legislative package is up on the Hill. It has been okayed by the President. So I am sure that my sister Department of Defense is going to back up the President on that.

Second, with respects to the parts of the package done by Commerce Department fiat, we have addressed two or three different areas. One is low level technology items that come below what COCOM calls AEN, administrative exception notes. What that means is that all countries can ship them out without a license. We have to keep on licensing. It takes 6,000 or 7,000 licenses a year. We are going to do away with that and follow the custom of our COCOM partners.

The Commerce Department can do that by administrative fiat. We have to consult but we do not need concurrence. We can go ahead and do it after consultation.

Another part of the Commerce initiative concerns the sale items on the COCOM list to COCOM governments. Even when we require a license for the sale of an item that is on the COCOM list, we should not have to do so when the sale is to COCOM governments. They are abiding by the same rules we are. There are a considerable number of licenses we can get out of issuing by saying: If you are a COCOM government and the product is going to you, it doesn't need a license from a U.S. producer, and if the COCOM government also controls the company, we don't need to license that company, because they are abiding by the COCOM rules.

That will remove a great many licenses. Now, there are a couple of other things, too, but essentially, that is the heart of the package.

Everything in the package is either legislative fiat and has the President's seal or it is a matter of Commerce fiat which we can do without getting concurrence but on which we have to consult. Everything I said we will do, we will do.

APPAREL INDUSTRY

Senator HOLLINGS. All right, sir. With respect to the apparel industry, you wrote them last year, I think, in July, that you were going to look into the data discrepancies from Hong Kong. There were some overshipments. What have we done about it, and how can we guarantee against these discrepancies in the future?

Are you familiar with that? A gentleman has got a note on it there.

Secretary BALDRIGE. We did find some discrepancies. OTEXA initiated an investigation in two categories. In one category, we found errors in census data and removed the discrepancy.

In the other category, which was cotton sweaters, incidentally, OTEXA has spent literally months examining 4,000 census data documents and we are still in the process of doing that. I am told it will be completed very shortly. When it is completed, we will take the appropriate action, including charging of the overshipments to the appropriate shipper, if the investigation does prove that out.

So there really hasn't been a failure in monitoring, but it is incumbent on us to verify the import data when a legitimate question is raised about the accuracy.

So in effect, in one section, we have got it straightened out. In the other section, we still have to consider that.

COMPUTERIZING IMPORT DATA

Senator RUDMAN. Mr. Chairman, can you yield for one minute on that point?

Mr. Secretary, is there any plan afoot to computerize this operation to a greater degree than it is now? It would not seem to be a major technological achievement to have computer entries on a weekly basis by the appropriate service of Commerce or Customs by category that would give the administrators a read-out on a fairly current basis.

I mean, that is now done on a much more massive scale by industry in a variety of areas. Why couldn't you do that so we could see it playing out, if you will?

Secretary BALDRIGE. That would have to be a computer initiative of Customs.

Senator RUDMAN. Right.

Senator HOLLINGS. But wait a minute. We have got it. You have got, what, $450,000 a year?

Mr. FARREN. There is a computer system now that we use to develop the statistics, but it is based on the material that comes in from Customs.

Secretary BALDRIGE. It is written by hand, written documents, billings coming into us.

Mr. FARREN. Customs is in the process of computerizing their system. At each port of entry, they will be doing things electronically and feeding the information back to Washington.

Senator RUDMAN. When will that be done?

Mr. FARREN. The last I heard, that was projected into 1988 or 1989.

Secretary BALDRIGE. Mr. Chairman, correct me if I am wrong in this, but I feel that is part of an overall import data problem that we have in the U. S. Government. One of the reasons for some of the swings in our trade imbalance has been as much as 50 percent hangover from the prior months and doesn't get reported into, let's say, September's or November's figures.

Senator HOLLINGS. You are pushing those back two weeks.

Secretary BALDRIGE. We are pushing them back to get those.

Senator HOLLINGS. We will miss holding quotas.

Secretary BALDRIGE. No, sir.

Mr. FARREN. No.

Secretary BALDRIGE. It will give you and the textile industry numbers the same day as always.

Senator HOLLINGS. But we won't get them until they recommend a new quota.

Secretary BALDRIGE. No, sir, you will get them the same day you have been getting them, but what we have had to do is get the 50 percent backlog whittled down. Customs had it whittled down to 15 percent, but it still jumps around too much, so that is why we are doing this two weeks later.

If we see now that the month of January has a certain deficit figure, that will be the right one. We won't have to be so wild in correcting them later on.

Part of the problem that Customs has is taking these handwritten bills and so forth for the textile end of this. I mean, it is part of an old trade problem we have got in doing this. We have asked Customs to work on this problem. They have agreed. They are getting better at it, but it is going to take a year for them to get all the way shaped up.

Mr. FARREN. Mr. Secretary, maybe I can point out, as we develop the information which is computerized, Senator, within OTEXA, if there is a discrepancy, we then have to go back to the Customs Service and ask them for the documentation on a specific increase.

All of that is paper documentation. You would have to go back to the port of entry, and they literally have to sift through the files to pull out the documentation and then send that to us so we can verify the statistics that are in our computer.

But that is the process it goes through in reconciling a difference in a number.

Senator HOLLINGS. The committee is slightly familiar with the difficulty over Customs. We appropriated for 600 new Customs agents when Don Regan was Secretary of the Treasury. They didn't hire one.

Again last year we added agents and they have hired very, very few. There have been marches on the White House and meetings at the Cabinet table on getting more Customs agents; we still don't have them. So we will have to hurry along their computerization.

NOAA CHIEF SCIENTIST

Also, with respect to NOAA, now, we have missed a good new scientist. You know, we passed into public law the position for a Chief Scientist. Now the National Science Foundation got him, and we don't have one. If we had one, we would have to move him out to Maryland with the rest of the office. Why are we moving NOAA out to Maryland? You are not trying to get rid of it?

Secretary BALDRIGE. No, but that Chief Scientist, we did offer him a job, and he turned it down.

Senator HOLLINGS. He did?

Mr. BROWN. Yes. He chose NSF.

Senator HOLLINGS. That is good to know, then. I appreciate that. Very good.

Secretary BALDRIGE. We are trying to get another list of possibilities from the Personnel Office of the White House right now.

Senator RUDMAN. Wasn't one of the reasons he turned it down was because it took so long to offer it to him? It finally took 6 months and he gave up and moved on; isn't that accurate?

Mr. BROWN. The White House informed him of their intent to nominate him, I think, before he took the job at NSF.

Senator RUDMAN. But at what point in time?

Secretary BALDRIGE. We will look it up and let you know.

Senator RUDMAN. That is not really a major, macro problem, but it is typical of some things that happen. I am not blaming anyone at the table, but that shouldn't be allowed to happen.

USTTA

Senator HOLLINGS. Under Secretary Tuttle, what will happen with respect to the Travel Service? Will you move someone out of Paris to Miami?

Ms. TUTTLE. I have some intentions of making some changes, and you will be getting a reprogramming letter with our intentions in about 2 weeks.

REORGANIZATION OF USTTA OFFICES

[CLERK'S NOTE: Subsequent to the hearing, the committee received the above-mentioned reprogramming letter. At the direction of the chairman, the letter and subsequent pertinent correspondence have been printed in the record:]

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United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-6025

May 6, 1987

The Honorable Kay Bulow
Assistant Secretary for Administration
U. S. Department of Commerce
Washington, D.C. 20230

Dear Ms. Bulow:

The Subcommittee has reviewed the reprogramming notification dated April 3, 1987 with regard to the United States Travel and Tourism Administration, and your letter of May 4th indicating that the reorganization will not change the present arrangement in Paris. I am pleased to report that the Subcommittee has no objection to the reorganization as modified by your letter.

With kind regards, I am

Sincerely yours,

Ernest F. Hollings
Chairman, Subcommittee on
Commerce, Justice, State
the Judiciary

EFH:wko

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

May 4, 1987

Honorable Ernest F. Hollings
Chairman, Subcommittee on Commerce,
Justice, State, the Judiciary
and Related Agencies
Committee on Appropriations
U. S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Commerce Department forwarded a reprogramming notification to Congress April 3, 1987 to reorganize certain operations of the United States Travel and Tourism Administration (USTTA) and to open a USTTA office in Miami to provide services for the growing Latin American market. The House Appropriations Subcommittee approved our proposal on April 23, 1987.

Your staff has advised us that our plans to relocate one of our senior personnel from Paris to manage the new office in Miami causes you sufficient concern that you will not support the reprogramming in total. The Commerce Department feels that the Miami office and its expanded coverage into burgeoning Latin American markets is so important that we are withdrawing the relocation and this individual will remain in Paris for two more years.

I hope this resolves your concerns and if you wish, Under Secretary Tuttle and I will be pleased to meet with you to answer any remaining concerns you may have.

Sincerely,

Kay Bulow

Kay Bulow
Assistant Secretary
for Administration

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

APR 03 1987

Honorable John C. Stennis
Chairman, Committee on
Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The purpose of this letter is to notify you of changes to the United States Travel and Tourism Administration's (USTTA) overseas office configuration and Headquarters marketing office. These changes will result in some reassignment of overseas personnel and the addition of one staff person at Headquarters due to the return of an employee with reemployment rights. All costs are to be absorbed from within the current International Tourism Development line item.

We plan to realign USTTA regional offices in order to take advantage of substantial growth in two regions of the world and to improve the cost effectiveness of our overseas operations. Since 1983, in conjunction with industry, we have been studying ways in which we could better tap the Pacific Basin and the South American markets. In particular, three Asian countries --Hong Kong, South Korea, and Taiwan -- and two South American countries --Brazil and Argentina -- have shown high growth rates and have the potential for significant market penetration. A new regional office in Miami would serve the South American market and a contract will be let to a private firm who already has offices established throughout the Pacific Basin.

The establishment of an office in Miami to serve the South American market will be the most cost effective method. The office will consist of two staff persons -- a director and a secretary/administrative assistant. The office, scheduled to be open in late June and located in the World Trade Center next to the Foreign Commercial Service Office, would be well-placed to conduct marketing and promotional operations for that region. Miami is the major hub of international tourism marketing headquarters for South America. Most of the major tourism wholesalers and all major airlines serving South America have their regional headquarters located in Miami. In addition, the cost of operating the Miami office, estimated to be $42 thousand in FY 1987 and $152 thousand in FY 1988, is half the cost of operating an office in South America.

The Asian area, being so diverse and widespread, is best served, at this time, by contracting with a private firm which already has office locations throughout the Pacific Basin to represent USTTA and its marketing operations, rather than the establishment of a USTTA permanent regional office which would not be able to represent other markets because of the distance involved. USTTA can contract with a company to provide information and brochures to the travel and tourism trade. At the present time, it is planned to award a contract in the first quarter of FY 1988.

In order to strengthen our ability to manage the overseas regional offices, we plan the addition of a new Deputy Managing Director for Administration. The addition of a new Deputy Managing Director would strengthen the Office of Marketing's ability to conduct and manage international marketing programs. The above program changes will result in the following personnel actions:

- The Paris Regional Office Director's vacancy, created by the transfer of an existing employee, will be filled by a former USTTA employee returning, with reemployment rights, to the agency.

- A new Miami Regional Office Director's position will be filled by transferring the Regional Director presently in Paris.

- The Regional Director in London will be transferred to a new marketing position to support regional operations in Washington.

- The vacancy created in London will be filled by transferring the Regional Director from our regional office in Germany.

- The Regional Director's vacancy created in Germany will be filled through the normal OPM hiring procedures.

The actions will result in the addition of one person to the Headquarters marketing staff. The total cost for additional salary and transfer expenses will be about $135 thousand in FY 1987 and $70 thousand in FY 1988.

Please let me know should you need any other information on this matter.

Sincerely,

Kay Bulow

Kay Bulow
Assistant Secretary
for Administration

MOVEMENT OF PERSONNEL

Senator HOLLINGS. Why would you take an operation like we have in Paris and move the head to Miami?

Ms. TUTTLE. That particular individual that you are talking about has a command of the Spanish language, and we are very interested in the South American market. Right now, 53 percent of our programming budget is spent in Europe, and only 11 percent of our receipts come from Europe.

In South America, 8 percent of our receipts come from South America, and yet we spend no budget on it. So we are very interested in opening up a one-person office in Miami.

Senator HOLLINGS. Are you really saying that is the only person you can find to speak Spanish in a three-man office? You will only have a three-man office according to your proposal for that office. You are taking someone from an office in Paris that is working extremely well. It seems like you don't want to find a person speaking Spanish, and you would rather denude our facilities in Paris?

Ms. TUTTLE. I would rather take someone who knows USTTA very well, knows South America very well because he has been there before; I want to know both languages. and how to start up new programs, put a very experienced person in Miami. I also have another person who speaks French who has reemployment rights with USTTA. This person is an excellent person, and I think he will do a very good job in France.

Secretary BALDRIGE. As we know, the Congress wouldn't want to micromanage the U. S. travel industry.

[Laughter.]

Senator HOLLINGS. We don't want to mismanage that. I have some other questions here for the U. S. Travel and Tourism Administration, and the EDA. We can get going on, "We don't want to micromanage," but have we got a grant coming through?

FIBER OPTICS

We worked so long to get fiber optics. We got it going and you all rescinded it, but that decision will be overturned within about 10 days, and then I take it, we can go ahead with that fiber optics operation, can't we?

Secretary BALDRIGE. Yes, sir, if the rescission isn't granted.

Senator HOLLINGS. Yes, sir.

I have the other questions, Mr. Secretary. Is there anything further?

Secretary BALDRIGE. May I make a short point on that, sir?

Senator HOLLINGS. You or anyone else. We want to hear from you.

Secretary BALDRIGE. That, the fiber optics funding will go to an Italian company, a Swiss company.

Senator HOLLINGS. Right. Right. That is the only one that is into that fiber optics. In fact, I have got 13 Japanese companies in South Carolina. I have got more West German industry in South Carolina than the other 49 States combined. I am very familiar with foreign industry. I

can see the train. You see, when the Japanese make money, they come back and invest it, and then they take the profits and get more research and put in their governmental restrictions, like the distinguished Secretary said. They have told you, on super computers, "Forget it."

As a good businessman, the only thing that is going to change that is not a bunch of political rhetoric and a bunch of negotiating. Make it economically cost them, and when it is to their economic benefits, then they will talk sense to you. You don't have to talk Japanese; just talk money. Money talks.

We keep dancing around the fire and saying we have got to come back to the lean stuff about being more productive, more productive. We are going out of business.

Any other questions?

SUBMITTED QUESTIONS

The committee members have submitted questions in writing for the record. They will be inserted at this point.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

User Fees

QUESTION:

Mr. Secretary, your 1988 budget is replete with new user fees. You already raise some $198,000,000 in Patent and Trademark and other fees, but you want to collect $130,000,000 more by;

- Increasing fees for Census Services and products, $16,000,000;
- An Export License and an Export Services Account will bring an additional $9,000,000 to the ITA;
- The Travel Service proposes a $1.00 ticket writing charge that would bring in $12,000,000;
- A $6 Federal Marine Fishing License is again proposed, as well as $25 Federal stamps for buying and selling certain fish, and to fish for species declared "gamefish", and a 1 percent fee for landing certain fish for commercial purposes.
- In addition, fees for the products NOAA proposes for private meteorologists will be increased to recover $1,100,000, as well as existing fees for NBS' standard reference data and calibration services and NOAA's satellite data services.

All told these fee charges are projected to bring in an additional $130,000,000 to the Treasury in fiscal 1988.

Mr. Secretary, have you taken over the function of the Commissioner of Internal Revenue?

ANSWER:

New user fees would generate an additional $83 million in 1988. The Administration's position on user fees is that some of the services the Federal Government provides are utilized by narrowly defined groups or individuals. Agencies should recover the costs for providing these services through "user fees", in which recipients of the service are charged directly. Direct charges to users are appropriate because those who benefit directly from the service pay the cost; taxpayers do not. The Department of Commerce agrees with that position. Our budget identifies areas where such charges apply.

QUESTION:

We need receipts of some kind to achieve the Gramm-Rudman-Hollings target for 1988, but we don't have to turn the

Federal Government into some kind of town council pulling a nickel and dime tax on everything.

What's next, meters in Commerce parking lots?

ANSWER:

We have applied the user fee concept to areas where we can identify a beneficiary and determine an appropriate charge.

QUESTION:

Wouldn't it be more efficient and sensible to raise the revenues we need through a broad-based approach, such as an oil import fee or value added tax?

ANSWER:

User fees increase efficiency of service delivery by reaching those willing to pay. Cost-based user fees may also provide an incentive for the private sector to provide comparable service at a lower cost.

QUESTION:

Last year I suggested an Import Licensing System. Did you consider that as part of your new user fees?

ANSWER:

No. During the FY 1988 budget review process the only increased fees discussed were for export licenses and additional export promotion services. These two proposals are viewed as the ones with the best chance of reaching the stated collection targets. ITA may examine additional fees in the future.

QUESTION:

Mr. Secretary, I am absolutely opposed to a Federal Marine Fishing License. Many people vacation at Myrtle beach and other ocean front areas and take a day to do some fishing. They are not going to pay $6.00 for the annual day of fishing.

Since you are charging for use of the ocean, will you be coming back next year with a fee for swimming in the ocean?

ANSWER:

Up to 50 percent of the fees collected will be shared with states to support their fishery conservation programs. The Federal share will be used to partially offset the costs of Federal marine fishing management, research and conservation

programs. Without these state and Federal programs our marine resources would be severely depleted. We believe the beneficiaries of sport and commercial fishing resources should be willing to help support these vital programs.

International Trade Administration

Trade Deficit

QUESTION:

Mr. Secretary, last Friday Commerce reported that U.S. merchandise trade deficit for January widened to $14.8 billion after it had dropped to $10.7 billion in December. While imports rose by $2.1 billion in January, exports fell by almost the same amount.

You attributed the drop in exports to bad weather. However, some economists are distressed about the big decline in exports, they believe that any narrowing of the deficit will be due to Americans buying fewer imports instead of exports because of the deterioration in economic growth abroad.

So there is a concern about exports. But I am far from convinced that exports are as big a part of the problem as imports when it comes to America's staggering $170 billion trade deficit.

Since 1982, exports -- even with the rising dollar we had the first couple of years -- remained remarkably stable. But imports jumped from $250 billion to $380 billion. It would take a 75% increase in exports to counter that.

Isn't that highly unlikely in the face of the deteriorating growth overseas of foreign and governmental protectionism?

ANSWER:

Foreign economic growth this year is expected to continue in the moderate range and this should result in higher U.S. exports. Among the industrial countries, Canada and Japan--our largest trading partners--in particular are expected to show higher growth. Economic activity in Europe is expected to remain about the same as in 1986. With the exception of the East Asian NICs, the export outlook for other developing countries, however, is less optimistic because of the debt crisis and/or depressed world oil prices.

Protectionism is a serious impediment to world trade growth and is not a solution to U.S. or other nations' trade problems. It is crucial that protectionist pressures abroad and here be rebuffed. The timing and results of the new Uruguay GATT round are particularly important in achieving this goal, not only for U.S. merchandise exports, but also for U.S. services exports and U.S. income from the intellectual property rights usage.

QUESTION:

Isn't the Administration, in pushing exports, perhaps singling out the wrong culprit and therefore coming up with the wrong solution?

ANSWER:

The Administration has not suggested that the narrowing of the trade deficit must come solely from export growth. The drop in the exchange rates of the dollar against the developed countries' currencies has made a major change in the price competitiveness of U.S. exports and we expect to see gains from this later in 1987 and beyond. Just as important, the price competitiveness of imports from those countries has been severely impaired and we are already seeing a slow down in import growth. It is vital for other major industrial countries to achieve greater domestically-driven economic growth rather than continued excessive reliance on exports for that growth.

Office of Textiles and Apparels

Monthly Import Data

QUESTION:

Mr. Secretary, last year, in response to my questions you assured us that the Department had adequate resources necessary to monitor and to provide the kind of active reporting required to prevent cheating.

Your department has just announced that monthly import data will be released two weeks later to improve accuracy. Since the detailed published versions of the monthly import statistics will not be available to the public until the normal two week period following the announcement of the trade date, there will be a span of more than two months from the time imports arrive to the time the date will be available for analysis.

I am informed that, as a result, any one month explosion in imports will be undetected by interested parties in the private sector until too late to recommend a new quota to cut off the surge. Given the Administration's record of delay in the establishment of needed new quotas over the last six years I can only interpret your new procedure as a further step backward in the achievement of the President's often stated objectives on textile and apparel imports.

Are you revising the enforcement practices in the Textile and Apparel Program to take care of this serious problem.

ANSWER:

The Administration's record for the establishment of new quotas as a result of rising imports is quite good. 144 categories were made subject to limits last year and 129 the year before.

The new Census data processing schedule will provide more accurate data than had been the case. This data will be available six weeks after the close of the import month. However, the Office of

Textiles will be provided a special import data tape for a fast track review of most of the import data only four weeks after the months close so that surges can be quickly identified. The revised processing schedule should not lead to changes in the base period on which quotas are established..

OTEXA Staffing

QUESTION:

By all accounts, the workload in Commerce's Textile and Apparel Import Control Program has grown markedly since your appointment as Secretary of Commerce. Imports are now 240% higher than 1980. At that time about 10 or 20 new quotas were being established per year. We now need that many in an average month. Nonetheless, the resources dedicated to this critical, complex task have actually declined. OTEXA had about 50 positions in its budget then. There are less than 20 employees at work there now.

Little wonder that the Administration is having continuing problems in administering the President's commitment on Textile and Apparel Imports.

Mr. Secretary, it is my understanding that the Office of Textiles and Apparel currently has 37 people on its payroll, although it is authorized 47 slots. Are you planning to fill the remaining 10 positions?

ANSWER:

Yes. Of the 37 people now on board, three are temporary. We intend to hire these people permanently. We have identified four additional people to fill positions for which we have received exemptions to the ITA-wide freeze (one has now been hired). We are in the process of reviewing the remaining vacancies and will initiate steps to fill them shortly.

QUESTION:

I also understand that in 1980 there were 47 people in the Office of Textiles and Apparel, trying to cope with imports totalling 4.9 billion yards. Now, in 1986 there were 37 people in that office dealing with imports totaling 12.7. How can you expect that office to monitor, much less control, more than double the imports with 25 percent fewer people?

ANSWER:

We understand your concerns over inadequate staffing in the office of Textiles and Apparel and, as noted in the answer to the previous question, are taking steps to remedy the situation. We cannot, however, control the Office's attrition rate which is the result of voluntary staff departures.

QUESTION:

We understand that hiring in OTEXA, like all of Commerce was frozen for a few months. Since OTEXA has an earmarked amount in the ITA appropriation, what is the logic of that action?

ANSWER:

ITA has been concerned over the implications of budget cuts on the future employment status of its current employees. In order to avoid future dislocations, ITA has considered it an important objective to hire from within wherever possible. Textiles and Apparel has been granted exceptions to the freeze for at least seven positions for which it will consider all candidates (including those outside of ITA) to fill professional staff positions.

QUESTION:

Please insert in the record the usual chart with respect to the total funding of OTEXA by activity, i.e., staff, TIMS, TC^2, and export promotion.

ANSWER:

OTEXA has implemented the following FY 1987 funding allocations:

Office operations.....	$2,010,000
TIMS.....	469,000
Export promotion.....	957,000
TC.....	3,349,000
Total.....	$6,785,000

QUESTION:

According to information previously supplied by your staff, no funds are budgeted for the Textile Export Expansion Program. How can our domestic manufacturers compete abroad if the Department of Commerce will not assist them?

ANSWER:

Beginning in FY 1988, export assistance for the textile and apparel industries will continue to be funded from the Textile Trust Fund of approximately $700,000. This private sector support compares favorably with prior U.S. government support.

QUESTION:

No funds are budgeted for support of the Tailored Clothing Technology Corporation (TC^2). Earlier this month the officers of the corporation were in Washington and described the good work they are doing in order to save our domestic apparel industry. We are way ahead of our competitors and shouldn't we maintain our support of TC^2 to maintain our advantage?

ANSWER:

The Administration believes that future support for TC^2 can and should be handled by the industry. It was not intended that Government assistance for the project would be open-ended. To date, the Government has provided TC^2 over $8 million during the past six years.

Hong Kong Data Discrepancies

QUESTION:

By a letter to a representative of the apparel industry last July, you indicated that certain data discrepancies with Hong Kong were being looked into.

What were the discrepancies which I presume were overshipments?

ANSWER:

The discrepancies were overshipments based on U.S. Census data. These overshipments were not reflected in Hong Kong data.

QUESTION:

What steps were taken to resolve these discrepancies or overshipments?

ANSWER:

When the 1985 final data indicated discrepancies between U.S. data and Hong Kong data that had resulted in overshipments according to our records, OTEXA initiated an investigation in two categories. In the first category, womens, girls, and infants wool suits (444) errors in Census data were found which removed the discrepancy.

In the second category, cotton sweaters (345), OTEXA has spent months collecting, analyzing, and tallying more than four thousand Census import documents. This investigation is still in progress but will be completed shortly. When the investigation is completed, we will take appropriate action, including charging of the overshipment to the appropriate level, if the investigation substantiates our data.

QUESTION:

What guarantees do we have against future discrepancies or overshipments?

ANSWER:

We are discussing with Hong Kong, and Customs, implementation of the Automated Visa Verification System which will guarantee that shipments from Hong Kong will be verified against an automated list of shipments authorized by Hong Kong for export. We will continue to closely monitor Census data and, in those few cases where overshipments are substantiated, they will be charged against the next year's quota limit. We maintain the authority to embargo overshipments.

QUESTION:

Were these discrepancies caused by failure of our government's efforts to monitor imports? If so, did that failure occur at Customs, at Census or at the Office of Textiles?

ANSWER:

There has been no failure in monitoring. However, the volume of shipments received from Hong Kong has led to occasional errors in reporting and tabulating shipments accurately. No one organization is responsible for this, it results merely from several different organizations dealing with numbers and tabulation.

Customs Support of Importation Laws

QUESTION:

Mr. Secretary, how happy are you with the enforcement support you get from other agencies in the Executive Branch, such as Customs?

The reason I ask is that recently the GAO concluded that the physical examination by Customs of Import shipments into the Port of New York, John F. Kennedy International Airport, and other ports of entry, was inadequate to assure that importers are complying with importation laws and regulations. I'd be puzzled if you weren't upset, but if you are upset, what are you doing to correct the situation?

ANSWER:

Customs is the primary agency providing enforcement support for trade programs administered by the Department of Commerce. I believe Customs is doing the best job it can given its current resources and the vastness of its responsibilities. In addition to the normal collection of import duties, Customs assists the Department in enforcing the President's Steel Program, the machine tool voluntary restraint agreements, the U.S.-Japan semiconductor agreement, the Canadian lumber agreement, the textile import program and the assessment of antidumping and countervailing duties.

To ensure the accuracy of Customs' border enforcement, we employ a double-check system for all import documentation submitted for these programs. This involves the complete review of all documentation, including country of origin, quantity and product classification, and comparing the results to similar data collected by the Bureau of the Census. We work regularly with Customs to correct discrepancies found through our double-check system.

Customs has been cooperative in working with us to find ways to improve enforcement measures. This cooperation has been instrumental in the successful implementation of our trade laws and programs.

ITA Expansion for GATT

QUESTION:

Mr. Secretary, the Committee has received a reprogramming notice that would utilize a $7,623,000 windfall from the Trade Adjustment Assistance to firms. It is proposed that a portion of the windfall be used to get a running start on the 72 additional positions requested for 1988 to support the U.S. delegation at the Uruguay Round of the GATT negotiations.

How solid is your request for the 72 additional positions as that is double the number of people we have working in that area now?

ANSWER:

Our FY 1988 budget includes a request for 72 positions (54 FTE) to work on the GATT Uruguay Round. This request remains accurate. For planning needs, the budget request had to be formulated before the negotiations were launched in September, 1986. Our estimated personnel needs were predicated on certain assumptions as to the content of the negotiations, the number of negotiating groups, the frequency of their meetings and the type of U.S. representation at these meetings.

All of our assumptions were correct: all issues of importance to the United States are included in the negotiations; a large number of expert negotiating groups (approximately sixteen) have been established to undertake the negotiations on specific topics; these groups will meet initially at least quarterly and probably more frequently as the round progresses; and the USG is being represented at these meetings by interagency negotiating teams based in Washington.

QUESTION:

If we approve the reprogramming today, how many of the 72 positions would be hired by September 30th?

ANSWER:

As explained above, the request for 72 positions (54 FTE) is part of our FY 1988 budget request. Our FY 1987 reprogramming request is for 13 FTE. We will be able to fill all 13 FTE before September 30, 1987.

U.S. and Foreign Commercial Service

QUESTION:

Mr. Secretary, it would seem to me that the U.S. and Foreign Commercial Service would be most akin to your experience at Scovil. They are your outside sales force and most susceptible to the performance tests you applied in business.

In 1981, the U.S.&FCS was comprised of 979 positions; in 1988 it is 1,291 positions, including 7 new positions for overseas pre-license checks and post-shipment verification. If we credited the USFCS

for every dollar of U.S. exports, it would work out to $233,900,000 per position in 1981 and $158,950,000 for each of the 1,296 positions in 1986.

What is your general assessment of the US&FCS?

ANSWER:

In general we are very pleased with the promotion activities and operations of the US&FCS. Since transfer to the Department of Commerce in 1981 we have built up both the number and expertise of overseas personnel in terms of education, private sector experience and language qualification. Through our seminars, trade shows and counselling activities we have encouraged and assisted thousands of firms to export and enter new markets. Activities such as our Trade Opportunity Program, Agent Distributor Service, and Comparison Shopping Service offer avenues, especially for small and new-to-export firms, to enter exporting that are not available elsewhere. Our overseas officers often open doors and obtain information available only to a government official.

We are embarking on various new activities such as providing more product oriented market research and company specific trade information through the Commercial Information Management System (CIMS) to help firms penetrate new markets. Our Basic Guide To Exporting has been totally revised. We have initiated a partnership program to complement state activities where they have trade development programs and we work closely with business trade groups to keep abreast of their needs.

Our network of 127 commercial offices in 66 countries and 48 district offices offers an essential channel for business to become more aware and capable of exporting. The US&FCS is essential in helping U.S. business to compete in a challenging global economy.

QUESTION:

Has the Department made any studies of the US&FCS?
We would appreciate your supplying them to the subcommittee.

ANSWER:

Inspections of our overseas and domestic operations are regularly conducted by the Office of the Inspector General. The Office of the Inspector General also conducts audits that address specific issues or regions of particular concern. ITA performs internal control reviews under the provisions of the Federal Manager's Financial Integrity Act and conducts special studies of particular areas of concern. In addition, individual US&FCS units conduct individual studies to improve their area. A representative list of completed studies of the US&FCS by the Department follows.

Office of the Inspector General Reports (USDOC)

1. Efficiency and Effectiveness of ITA Efforts to Help Expand U.S. Exports to Four Southeast Asian Nations
2. Export Licensing Activities Administered by District Offices
3. Inspection of Oklahoma City District Office
4. Inspection of Selected European Posts

Internal Control Reviews (ITA)

1. Direct Communication Between District Offices and Overseas Posts

Unit Reports (US&FCS)

1. Export Promotion Services Workload Processing Task Force

QUESTION:

How much redeployment has occurred in the US&FCS to keep up with changing trade patterns? Please furnish a table outlining the deployment of the US&FCS by post over the last three years.

ANSWER:

The following posts have had redeployment changes in the last three years:

Year	Post	Status
1984	Belem	Opened
	Berlin	Opened
	Bridgetown	Opened
	Capetown	Opened
	Kingston	Opened
	Port of Spain	Opened
	Zurich	Opened
	Accra	Closed
	Harare	Closed
	Kinshasa	Closed
	La Paz	Closed
	Monrovia	Closed
	Montevideo	Closed
	Prague	Closed
1985	Shenyang	Opened
1986		No Changes

While there were no changes in post deployment in 1986, we closed Export Development Offices in Sao Paulo, Sydney, and our Regional Export Development Office in Bonn during that year. The REDO Bonn functions are management responsibilities which have been moved to Washington. EDO trade promotion functions remain the responsibility of the SCO in country and are in no way diminished except that they have eliminated fixed display facilities.

QUESTION:

Does the US&FCS still seek to have a mix of career and short-term personnel from outside? How is that working?

ANSWER:

The US&FCS definitely seeks to have a mix of career and short-term personnel from outside. Currently, the FCS has 15% of their total officer positions filled by limited non-career employees who came to the FCS from the private sector. This percentage is down from

approximately 40% when the FCS was first established. Since 1982, it has been our goal to maintain 20% limited appointment in the system in order to provide private sector involvement and exchange of trade specialist personnel from our domestic operations.

QUESTION:

With regard to the additional positions for 1988, how much of the US&FCS' time is spent on export control and other trade-regulation activities? Why is this not shown in the workload and performance data?

ANSWER:

The domestic field used about 50 FTE last year to support these activities. The amount should be about the same this year. Overseas, we expect to use about 35 FTE this year.

This data is found in the narrative on page ITA-51 and should appear in future budget requests as part of the workload and performance data.

QUESTION:

Does the export control activities impinge on the ability of the FCS to promote American products?

ANSWER:

No. Export control activities do represent an increasingly significant workload factor and are time-critical. However, they do not impinge on the ability of US&FCS officers to promote exports. In fact, pre-export license shipment checks sometimes uncover additional market opportunities for U.S. firms. Of course, excessive restriction of U.S. products does impact on the tendency of foreign companies to buy U.S. products, and so in general may reduce the demand for American goods abroad. We have recognized this by recent efforts to encourage greater decontrol of non-sensitive U.S. commercial products.

QUESTION:

One of the new FCS positions is for Johannesburg. Is that position necessary in view of the new restrictions on trade with South Africa?

ANSWER:

US&FCS Johannesburg is mandated to implement a black outreach program. Additionally, the new Anti-Apartheid Act makes two changes to existing export controls on South Africa: 1) the addition of computer manufacturing equipment and 2) a ban on the export of crude oil and refined petroleum products. With already the heaviest post-licensing check workload in the world, the additional burden imposed by the new Act requires that we provide an export control officer for South Africa.

Retention of Commercial Officers

QUESTION:

When I last chaired this subcommittee we were in a transition from State to Commerce. How many former State Department Commercial Officers eventually transferred to the U.S. and Foreign Commercial Service?

ANSWER:

Originally 30 FSO's transferred from State to Commerce during the "Open Window."

- The actual transfer did not take place until 1981. The 30 FSO's selected to transfer did so between September and November of 1981.

- In late 1981 another nine (9) FSO's transferred from State to DOC. The (9) that transferred had to go thru the FCS assessment process.

- In FY 1982 six (6) FSO's from State transferred to DOC thru the FCS assessment process.

QUESTION:

How many of the former State people are still with the US&FCS?

ANSWER:

34 of the 45 State FSO's are still with the US&FCS.

QUESTION:

Have all the former State people still with the US&FCS rotated back to the United States for a domestic assignment? If no, Why not?

ANSWER:

No. Out of the 34 State Officers 14 have rotated to the United States.

The US&FCS is a small organization with very few domestic positions available to be filled by FSO's.

QUESTION:

What have been the Domestic Assignments of the Former State Personnel that have rotated to the United States.

ANSWER:

FSO's have filled the following Domestic Assignments.

Chief
Employment Management Division
Office of Foreign Service Personnel
(Ongoing)

Desk Officer
International Economic Policy
Office of Japan
(Ongoing)

Director
Chicago District Office

Trade Specialist and Regional Mid-West
Expert on China
Chicago District Office

Regional Managers (4)
Headquarters
U.S. and Foreign Commercial Service
(Ongoing)

Private Sector Exchange
Pittsburg District Office

Chief, Office of Planning and Management
U.S. and Foreign Commercial Service

Post Management Officer
Office of Planning and Management
U.S. and Foreign Commercial Service

Industrial War College

U.S. Trade Representative Officer

Director
Cleveland District Office

Deputy Director
Hartford District Office

Deputy Assistant Secretary for
Textiles and Apparel

Acting Deputy Assistant Secretary for
Foreign Operations

QUESTION:

How many of the former State Personnel with the USFCS served in an ITA District Office?

ANSWER:

Six (6)

Chicago D.O.
Cleveland, D.O.
Pittsburgh, D.O.
Austin, Texas D.O.
Los Angeles D.O.
Hartford D.O.

Training ITA Employees

QUESTION:

The Department's Inspector General has reported a significant lack of training and guidance in the ITA overseas offices. He noted a lack of consistent criteria to help employees identify the most promising industry sectors and product lines in a host country so they can prepare country marketing plans for the headquarters of ITA. He also said a lack of guidance caused confusion about how to classify firms (new-to-export, new-to-market, etc.). He also addressed training to improve their foreign language skills.

Does this finding imply that ITA personnel are assigned to positions without the expertise and experience to do their jobs?

ANSWER:

FCS officers receive extensive training before being sent to a post. Employees who are experienced, but who have not served in a particular region before, are brought to Washington for approximately two weeks of area studies at the Foreign Service Institute, a week of intensive consultations with program offices in the department and consultations at appropriate district offices. The area studies provide an overview of the political, economic, cultural, and historical aspects of the region, as well as the region's significance vis-a-vis the interests of the United States. The program consultations provide additional opportunities for acquiring the most current information regarding the Department's activities in a region. Less experienced officers receive additional training. If foreign language skills are necessary for the job, and the career officer does not have them, language training is also provided prior to departure for an assignment. This training can last anywhere from several weeks to one year.

QUESTION:

What is ITA management doing to correct this problem?

ANSWER:

In addition to training in preparation for a specific assignment, the FCS provides a continuing career development program for its employees. A highly successful and well-received mid level officers course has been developed in the FCS to provide those officers with additional skills and knowledge. The course provides

extensive training in budget formulation and preparation, supervisory skills, and other administrative areas that posts have found troublesome in the past, personal development (i.e., communication skills) and functional training. This training lasts three weeks, and is conducted every summer. As an additional savings to the government, the course is attended by officers who are either on home leave or in the United States between assignments, so no additional travel is required.

On a more programmatic level, regional senior commercial officer conferences are held annually. These conferences offer an opportunity for employees in the field to exchange information among themselves and with Washington employees. We have also used occasions to brief field employees on timely topics such as the Ethics in Government Act and Project Pride.

QUESTION:

What is the status of the Operations Manual referred to by the IG for overseas offices.

ANSWER:

The U.S. and Foreign Commercial Service has published its Operations Manual. It is in use both in the domestic field and overseas as well as in Washington. Demand for the Manual is strong and it will be reprinted with new sections added before the end of the fiscal year.

QUESTION:

Does the ITA have a training/orientation program for employees assigned to overseas offices?

ANSWER:

Yes. New officers receive three to nine months training, including the seven week State Department orientation to the Foreign Service, consular training, area studies, the coping with violence abroad course, extensive consultations in Washington and a domestic district office, and, if necessary, language training. Language training is provided in Washington at the Foreign Service Institute and private schools, at post, at Foreign Service Institute overseas schools and at other locations, as appropriate. There is an independent study commercial course covering analysis of business environments, economic analysis, risk analysis, sources of finance, commercial instruments, market analysis, international marketing and sales, marketing strategies, trade promotion, and business vocabulary. Several posts have used this course as the basis for staff seminars. Most officers receive training in the computer applications used at post. Other training and career development opportunities in which FCS officers have participated include: The Industrial College of the Armed Forces, private sector exchanges, The Department of Commerce Senior Executive Forum, rotational assignments in the domestic district offices, and numerous university and private sector courses and seminars ranging from advanced management skills to writing to analyses of specific

industries and markets. FCS has recommended an officer for the Congressional Fellowship Program for FY 88-89. Training materials are sent to posts for self-study and for training staff. FCS headquarters trains State Department officers going to economic/commercial assignments and State Department functional specialists going overseas. Several FCS posts have trained State Department employees from nearby countries.

QUESTION:

Are the chiefs of the overseas offices familiar enough with their functional responsibilities to train their staffs? How do they handle training?

ANSWER:

Training at posts is the responsibility of the Senior Commercial Officer (SCO). The SCO counsels his/her staff regarding individual training needs, plans and directs on-the-job training, and ascertains the need for organizational training. Staff seminars are a common training vehicle at post. These seminars use self-study correspondence courses provided by the Department as well as material developed locally as the basis for their seminars. The FCS also makes video tapes available to posts on a variety of topics, such as Management Skills, Business Analysis, and Budget Preparation and Formulation. SCO's also provide guidance to Foreign National Employees enrolled in the FCS Foreign Service National Correspondence Course, and nominate foreign nationals to attend the Foreign Service National Orientation to U.S. Industry Program in the United States.

Capital Goods and International Construction

QUESTION:

One of your sectoral analysis divisions deals with Capital Goods and International Construction. According to page ITA-18 it assists U.S. engineering, construction and equipment firms to obtain contracts for major construction projects abroad. The justification indicates that this staff works with the Ex-Im Bank, the World Bank and the Inter-American Development Bank.

Last year we appropriated $615,000,000 to the State Department for their Diplomatic Security Capital program; is this staff helping American firms get those contracts?

If not, why not?

ANSWER:

Capital Goods and International Construction does not involve itself in the State Department's procurement process.

However, we understand that the U.S. architectural, engineering and construction industry is actively pursuing contracts with the State Department's Foreign Buildings Office. Commerce was pleased that Section 402 of the "Omnibus Diplomatic and Antiterrorism Act of 1986" provided a preference for U.S. contractors.

CGIC's work with Ex-Im Bank and other agencies is strictly for the purpose of helping U.S. industries compete for major foreign projects overseas.

Caribbean Basin Initiative (CBI)

QUESTION:

The GAO recently commented that the information maintained by Commerce relative to CBI-related business activity is "useless in measuring the program's effectiveness." The GAO recommended that Commerce ensure that the planned 1986 survey of CBI business activity result in reliable data.

What is the status of the 1986 survey?

ANSWER:

The new survey will identify new investment taking place in the Caribbean Basin during the three year period January 1, 1984 through December 31, 1986. Data collection is just getting underway, for a targeted completion date of July 15. A working group from the principal CBI Task Force agencies (including Commerce/ITA, State, and AID) devised the methodology for the study. Representatives of GAO and the House Ways and Means Oversight Subcommittee staff helped develop and approved the methodology.

QUESTION:

What steps have been taken to insure that the data will be reliable?

ANSWER:

All of the U.S. Government agencies involved in the CBI have learned from the problems in Commerce's first investment study. The problems of that initial study have been clearly identified and we have taken steps to ensure that these mistakes are not repeated. We are mounting a cooperative, concerted interagency effort to collect reliable data. The survey methodology has been very carefully designed and discussed thoroughly with GAO and the House Ways and Means Oversight Subcommittee staff. A clear definition of what constitutes "CBI investment" has been agreed upon for the purposes of the survey by all parties involved.

Embassies will be tasked to collect data jointly by State, AID, and Commerce. We will send Washington staff to the region to directly verify a sample of the data reported by our Embassies, and will use telephone interviews with companies to verify the remainder. Data that cannot be verified will not be used.

QUESTION:

Is there a correlation between what the GAO discovered and the comments made by the Commerce Inspector General relative to a lack of training and guidance of ITA personnel?

ANSWER:

No. The inaccuracies in the first study were due mainly to a failure to commit adequate resources to data collection and verification. These problems have been corrected for the current study.

Trade Adjustment Assistance

QUESTION:

Mr. Secretary, in your statement you say that management of the Trade Adjustment Assistance program was improved, but that program performance has not. Isn't that a contradiction within itself? How can we be managing better and have poor performance especially when we hear that getting trade adjustment assistance is about as easy as getting a camel through the eye of a needle.

ANSWER:

Management of the Trade Adjustment Assistance (TAA) Program has been improved in a number of ways since its transfer to ITA. Among the improvements have ~~been~~:

- o A realignment of TAAC territories to provide better service to areas hard hit by import competition:
- o Transfer of TAAC awards from high-overhead parent organizations to low-cost, private non-profit organizations; and

- o Elimination of the backlog in pending certification petitions.

The apparent contradictory poor program performance is largely the result of the loss of program authority last year.

QUESTION:

You cite a 1985 Inspector General study that found that only five percent of the firms entering the program survive. We have that study and that conclusion is misleading since 72.7 percent of the firms certified "dropped out before receiving any implementation assistance". Should not the judgment be on the 101 firms that received assistance?

ANSWER:

The data of the 1985 Inspector General study can be interpreted in several ways. The cited five percent survival rate is supported by the data. Another interpretation of the data could be based upon the percentage of firms receiving implementation assistance that survived. This would result in a much higher survival rate. The authors of the IG study concluded that the survival rate they reported was a more realistic measure of program performance.

QUESTION:

The 1987 Appropriations Act provided over $13 million for grants to Trade Adjustment Assistance Centers. Yet many of the centers are only being allowed to continue for short periods of time due to the pending rescission. As a result the centers cannot enter into long-term relationships with impacted businesses, since they have no assurance the funds will be available to complete their undertakings. How soon after March 15 do you expect to have funds available for the Trade Adjustment Assistance Centers?

ANSWER:

With one exception (the Mid-Atlantic TAAC), the Trade Adjustment Assistance Center awards expired on March 31, 1987. Now that the rescission will not be enacted, the Department is in the process of extending TAAC awards to the Centers. We intend to obligate FY 1987 funds for the TAACs in June of this year.

QUESTION:

How long will we continue this annual ritual of you not budgeting, our appropriating, you proposing a rescission, we reject the rescission and then getting the program underway? Trade Adjustment Assistance was reauthorized last year in a bill signed by the President. Isn't it time to start running this program properly.

ANSWER:

We are proposing termination of the trade adjustment program for firms and industries for the following reasons:

- The fact that a firm has been harmed by import competition should not constitute per se justification for special Government assistance.

- Such special treatment is unfair to firms that have been harmed by domestic competitive or other market-based factors.

- U.S. trade laws provide remedies against unfair import competition.

- Critical components of the import problems are beyond TAA's control or influence:

  - Low foreign labor costs.
  - Foreign government subsidized industries.
  - The strengthening of the dollar in international markets.
  - The shifting of the U.S. economy from manufacturing to service industries.

We intend to recommend termination of the TAA program as long as we believe that our reasons remain valid.

QUESTION:

Please provide this committee with a list of centers funded in 1984, 1985 and/or 1986, and indicate amounts of fiscal 1987 funds that have been approved for them. Indicate amounts actually disbursed.

ANSWER:

TAACs	FY-1984		FY-1985	
	Funds Approved	Funds Disbursed	Funds Approved	Funds Disbursed
New England	$1,200,000	$1,170,000	$1,500,000	$1,025,000
New York State	750,000	737,933	1,200,000	1,167,000
Metro New York & Puerto Rico	1,400,000	1,400,000	800,000	780,000
New Jersey	1,200,000	1,200,000	1,175,000	779,156
Mid-Atlantic	1,050,000	1,030,901	1,150,000	972,872
Southeastern	1,265,000	1,232,204	1,500,000	750,649
Mid-America	1,065,000	966,553	1,052,140	799,954
Mid-West	1,500,000	1,500,000	1,100,000	1,100,000
Great Lakes	1,350,000	1,190,380	1,193,295	848,373
Rocky Mountain	570,101	570,101	674,848	674,848
Western	1,600,452	1,588,738	1,500,000	1,470,273
Northwest	--- 2/	---	1,100,967	726,000
Total	$12,950,553	$12,586,810	$13,947,207	$11,094,327

TAACs	FY-1986		FY-1987	
	Funds Approved	Funds Disbursed	Funds Approved	Funds Disbursed
New England	$200,000	$---	$50,000	$---
New York State	---	--- 2/	366,398	31,348
Metro New York	1,077,000	770,127	175,000	---
Puerto Rico	---	--- 1/	---	--- 1/
New Jersey	592,913	343,827	200,000	---
Mid-Atlantic	---	--- 2/	---	--- 2/
Southeastern	960,000	180,000	105,000	---
Mid-America	---	--- 3/	536,805	7,554
Mid-West	274,000	108,667	125,000	---
Great Lakes	150,000	---	50,000	---
Rocky Mountain	372,281	372,281	200,000	---
Western	557,258	468,181	339,135	---
Northwest	894,542	736,547	80,000	---
Total	$5,977,994	$2,979,630	$2,227,338	$38,902

1/ Puerto Rico TAAC was not renewed.

2/ These TAACs had ample carryover funds to continue operations.

3/ Former sponsor decided not to continue the TAAC program, it had enough carryover funds to close-out and assist in transition to a new sponsor.

QUESTION:

Please provide this committee with a list of Trade Adjustment Assistance Centers, the States they cover, and the current expiration of their cooperative agreements or grants.

ANSWER:

TAAC	Area Covered	Award Expiration Date
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	3/31/87
New York State	New York State (excluding New York City, Westchester County and Long Island)	3/31/87
Metro New York	New York City, Long Island and Westchester County	3/31/87
New Jersey	New Jersey	3/31/87
Mid-Atlantic	Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Wash., D.C.	3/15/87
Southeastern	Alabama, Florida, Georgia, Kentucky, Tennessee, Mississippi, North Carolina, South Carolina	3/31/87
Great Lakes	Michigan, Ohio, Indiana	3/31/87
Mid-West	Illinois, Minnesota, Iowa, Wisconsin	3/31/87
Mid-America	Missouri, Kansas, Arkansas, Texas, Louisiana, Oklahama	3/31/87
Rocky Mountain	Colorado, Nebraska, Wyoming, New Mexico, North Dakota, South Dakota	3/31/87

Northwest	Alaska, Idaho, Montana, Oregon, Washington	3/31/87
Western	Arizona, California, Hawaii, Nevada, Utah	3/31/87

QUESTION:

In the event Congress does not confirm the Administration rescission, which of the centers (if any) funded in 1984, 1985 and/or 1986 will not be funded in 1987, Why?

ANSWER:

With the exception of the Puerto Rico TAAC, all of the Trade Adjustment Assistance Centers which were in operation during 1984, 1985 and 1986, are currently in operation. The Puerto Rico TAAC, which was operated by the Institute for Public Administration, expired on December 31, 1985, and has not been reestablished. It is our intent to continue funding all of the existing TAACs.

QUESTION:

The administration is proposing a program for all displaced workers as a substitute for Trade Adjustment Assistance for workers. Mr. Secretary, in your statement you say that the additional training funds is "much more than an even trade-off on the trade adjustment effort." What is the Administration proposing for businesses that have been displaced by imports?

ANSWER:

The worker adjustment assistance contained in the Administration Trade bill will be available to workers in businesses displaced by imports. In addition, businesses will continue to be able to use the provisions of section 201 of the Trade Act of 1974. Section 201 has traditionally provided a way for industries to gain breathing space when faced with rapid increases in import competition.

The Administration bill proposes several ways to improve the usefulness of section 201. The Administration bill clarifies that relief under section 201 is possible during an economic recession, making it more likely that imports will be at least an equally important cause and meet the law's causation test. In past cases, there has been a debate about whether economic recession-related developments should be considered as a single factor, perhaps overshadowing imports in importance.

We are proposing additional options for relief, including regulatory reform and multilateral negotiations. Under this

provision, the Administration could review, on an expedited basis, all regulations applicable to the industry concerned which may impede its competitiveness unnecessarily or unduly. A solution to the trade problem(s) involved also could be pursued through multilateral trade negotiations.

International Trade Administration

General

QUESTION:

On page ITA-2 it is stated that:

> "Other ITA activities such as U.S. business' (sic) participations in trade fairs and the sale of information products are partially funded through the ITA reimbursable program".
>
> What is ITA's statutory authority for a "reimbursable program"?

ANSWER:

ITA's statutory authority for its "reimbursable program" is contained in two basic statutes. First, 15 U.S.C. 1525 authorizes the Department of Commerce to make special studies, to prepare special compilations, and to furnish copies of its records upon the payment of the actual or estimated cost of such special work. This authority has been interpreted to allow the Department of Commerce to sell information products as part of the Department's program to promote international trade and export development. Second, prior fiscal year appropriations for ITA, including fiscal year 1986 (Pub. L. 99-180), and the current Continuing Resolution (Pub. L. 99-500) have provided that for necessary international trade activities of the Department of Commerce, the first sentence of section 105(f) of the Mutual Educational and Cultural Exchange Act of 1961 applies in carrying out such activities. As incorporated into the Continuing Resolution, this provision essentially directs ITA to encourage private parties and other organizations to participate in and make direct contributions to ITA to support activities concerned with the promotion of international business activity.

QUESTION:

The Mutual Educational and Cultural Exchange Act of 1961 is cited on page ITA-9 as the authority to accept contributions "in carrying out the activities concerned with exhibits". Do you construe fees paid by exhibitors or participants in Commerce-sponsored or supported trade shows, exhibits, conferences, seminars or meetings as "contributions" within the meaning of the cited act?

ANSWER:

Yes, the Mutual Educational and Cultural Exchange Act of 1961 has been interpreted to permit ITA to collect mandatory contributions from exhibitors at trade shows and conferences where there is a mutual, collaborative effort between ITA and the exhibitor in carrying out ITA's programmatic responsibilities. This interpretation was established in a 1970 legal opinion by the then Assistant General Counsel for Administration.

QUESTION:

Are funds generated from the "sale of information products," (underlining added), as cited in 1 above, also construed as "contributions"?

ANSWER:

No, funds generated from the sale of information products fall under the authority of 15 U.S.C 1525, as noted in the answer to question 1 above.

QUESTION:

If the non-appropriated funds which ITA receives from fees charged participants in ITA's events and from parties who buy information products are considered payments for services rendered, should not these funds, absent specific authority, be conveyed into miscellaneous receipts of the U.S. Treasury?

ANSWER:

The Mutual Educational and Cultural Exchange Act constitutes specific authority to maintain funds collected under the statute in a special trust fund account, in the same manner as a revolving fund, with no fiscal year limitation. Hence, such funds do not have to be deposited in the miscellaneous receipts of the Treasury. In addition, 15 U.S.C. 1526 permits the deposit in separate accounts of funds obtained from the sale of information products under 15 U.S.C. 1525 to repay or make advances to appropriations or funds which bore the costs of furnishing the information products.

QUESTION:

Fees and payments for ITA's services are received by Commerce offices throughout the United States and the world. Please provide details on Commerce's system of accounting for such funds. Also provide details (and copies) of any of the Department's Inspector General's reports on the control and use of these funds.

ANSWER:

ITA maintains a separate General Ledger and related reports which account for, identify, and maintain the integrity of the funds.

There are no Departmental Inspector General's reports on the control and use of these funds.

International Economic Policy

QUESTION:

A major goal of the International Economic Policy (IEP) subunit of ITA is stated on page ITA-23 as follows:

"safeguard the national interest through effective administration of U.S. trade laws."

What specific U.S. trade laws does IEP administer?

ANSWER:

IEP does not have lead responsibility for the administration of any U.S. trade laws. However, it provides major policy support to Departmental and Administration efforts to counter unfair foreign trade practices under Section 301 of the Trade Act of 1974 and to provide temporary relief to U.S. industries injured by imports according to the criteria in Section 201 of that Act. IEP also plays a limited support role with respect to those sections of U.S. trade law administered by other parts of ITA.

QUESTION:

On page ITA-23, it also is stated that IEP identifies and resolves bilateral economic problems which threaten U.S. economic activity. Please provide specific examples of this activity.

ANSWER:

IEP plays a central role within ITA and the interagency process in developing economic analyses and policy recommendations that address specific foreign economic policies and practices which limit U.S. trade and investment opportunities. IEP has supported the work of the Trade Strike Force on semiconductors, Airbus, and intellectual property and is an active participant in U.S. bilateral negotiations to eliminate foreign trade and investment restrictions. It also is directly involved in bilateral discussions with Canada to negotiate a free trade agreement and with Mexico to develop a commercial framework agreement.

During the past two years, IEP has contributed to the resolution of several major trade and investment problems involving the EC (EC enlargement), Japan (leather, leather footwear, and tobacco products), Korea (insurance and intellectual property), and Taiwan (customs valuation, automotive export performance requirements, and tobacco, wine and beer).

IEP continues to play a major role in MOSS talks with Japan to improve market access in the electronics, forest products, and transportation equipment sectors. It is involved in U.S. efforts

to monitor Japanese implementation of MOSS agreements on telecommunications and medical/pharmaceutical products and to open Japan's large construction market to international competition. (Present efforts in the latter area focus on the Kansai Airport project).

In addition, IEP is participating in U.S. Market Access Fact-Finding (MAFF) discussions with Germany, France, Italy and the EC Commission regarding the European telecommunications environment and related government policies and regulations. The results of this effort may point to a need for negotiations or other trade actions.

These bilateral activities complement IEP's active involvement in the GATT Uruguay Round negotiations and in the planning of Commerce-sponsored trade missions and other promotional activities.

Commercial Information Management System

QUESTION:

You state that the automated Commercial Information Management System (CIMS) will be completed in FY 1987. In your FY 1987 request for appropriations you stated that CIMS would be completed in FY 1986.

What are the reasons for this delay? Please provide a more precise timetable for completion of the system.

ANSWER:

Delays in CIMS implementation have resulted primarily from a combination of externally-imposed budget reductions and delays in the procurement process. The budget reductions compelled us to slow down portions of software development, hardware acquisition and computer training efforts related to CIMS. Procurement delays caused some slippage in the installation of certain important communications and other hardware components of the system.

Our current schedule for the completion of the project calls for installation of the CIMS software application, which is about to enter into the final stages of testing, beginning this spring and extending through the end of the fiscal year. This time frame is actually quite reasonable given the degree of coordination required among all of the various organizations that are working together to make CIMS operate.

A principal participant in the installation of the application at our overseas posts is the State Department which permits us to share the use of their central computers in many embassies and consulates around the world. In these posts, we must defer to State's needs and scheduling requirements. This is the main reason why the installation process overseas has become somewhat drawn out.

QUESTION:

CIMS is your third attempt at developing an information management system. Millions of dollars were spent on the predecessor systems, AITs and WITs.

Please provide expenditure data, by fiscal year involved, for each of these three systems.

ANSWER:

ITA began its development of an information management system in FY 1979 with the Worldwide Information and Trade System (WITS). The WITS concept was abandoned during FY 1982 as being too ambitious and in response to external complaints. The Automated Information Transfer System (AITS) concept, which followed WITS, was pursued through FY 1984. AITS proved to be inadequate to meet ITA's needs, but served as the departure point for the current Commercial Information Management System (CIMS). Obligations for these systems have been:

Fiscal Year	Amount (in thousands of dollars)
1979 (WITS)	$526
1980 (WITS)	3,185
1981 (WITS)	2,844
1982 (WITS/AITS)	2,608
1983 (AITS)	2,123
1984 (AITS)	2,088
1985 (CIMS)	5,251
1986 (CIMS)	5,549

The FY 1987 fiscal plans include $4,183,000 in appropriated funds and $720,000 from the reimbursable program (user fees). The FY 1987 plans include the costs of several activities, including the Trade Opportunities Program, that are becoming part of the CIMS operation. For FY 1988, no major change from FY 1987 funding levels is anticipated at this time.

QUESTION:

The Department of State recently announced an operational economic information system called SEIMS which can and is being used by other government agencies.

Are you using this new State Department system? To what extent will CIMS duplicate information available from State's system?

ANSWER:

We have reviewed the operation and content of the SEIMS system and are considering now whether it would be of value to us. We find no duplication between SEIMS and CIMS. As we understand State's

system, SEIMS deals which macro-level economic and commercial information, containing primarily highly aggregated information regarding industry sectors which are classified at the two digit Standard Industrial Classification (SIC) level for specific countries. This information can be viewed graphically over time and includes some commentary regarding trends and forecasts.

CIMS, on the other hand, contains some macro-level data, but is more concerned with micro-level information that can be of immediate value to a potential US exporter. CIMS contains information regarding industry sectors and subsectors which are classified at the five and seven digit SIC level. CIMS also contains information regarding foreign buyers and US suppliers, again, classified at the five and seven digit level, and specific trade and investment opportunities as well as extensive sector and subsector-specific market research on selected industries and markets. The two systems are entirely different, both operationally and substantively, and are intended to serve quite different purposes.

U.S. and Foreign Commercial Service

QUESTION:

You are requesting 7 permanent positions and $1,200,000 to meet ITA's increased responsibilities for overseas pre-export license checks and post-shipment verifications. The current workload for these activities is shown on page ITA-51 to be equivalent to that of 35 full-time employees.

Are these overseas activities carried out entirely by foreign commercial service (FCS) officers and not by foreign national employees? If so, what percent of the total overseas activities of FCS officers are accounted for by export control activities? What is the impact of this workload on the primary mission of FCS officers to promote U.S. exports?

ANSWER:

This activity is carried out by both officers and nationals. The demand varies from post to post. For instance, Sweden has a full-time export control officer and secretary, while other countries report no activity. Austria also has a full-time officer. Based on first quarter reporting from posts, we estimate that 35 FTE will be expended in FY 1987 for this type of work. In addition to checks, posts also expend resources in support of export control seminars and counseling activities. Based on our current overseas staffing of 621 officers and nationals, the 35 FTE workload takes about 5% of their overall time. Export control activities do represent an increasingly significant workload factor and are time-critical. However, they do not impinge on the ability of US&FCS officers to promote exports.

QUESTION:

Export control work requires specialized training and the majority of some FCS officers' time.

Do these export control specialists have a separate career path in the FCS or do they compete directly with officers whose primary activities are concerned with export promotion?

ANSWER:

Export control specialists have been career GS employees converted to the Foreign Service under limited appointment procedures, and have a career path primarily through the export administration division of the Department of Commerce. They are not now career Foreign Service Officers, but work under the day-to-day supervision of the senior commercial officer at post, while coordinating program responsibilities with the appropriate Deputy Assistant Secretaries in Trade Administration.

The Department is assessing the need for a career specialist corps to accommodate the export control function.

Export Controls

QUESTION:

The Commerce Department is initiating a number of actions to reduce the burden of export controls on U.S. exporters. e.g. license application will be cut by 17 percent. What will be the budgetary impact of these actions?

ANSWER:

The resulting reduction in the number of license applications through the decontrol initiatives proposed will not guarantee a commensurate reduction in resources that are needed to fulfill our responsibilities under the Export Administration Act, as amended. While the number of licenses we receive are partly due to the number of commodities we control, they are also a function of our economy and the ability of U.S. exporters to compete in international markets. As the U.S. business community expands its ability to export, we may subsequently receive just as many, if not more, license applications than we now currently process.

Secondly, the Administration's initiatives are aimed at decontrolling commodities which embed low-level technologies. By nature, applications for the export of such commodities are processed on a routine basis and usually require only a minimal amount of resources. Of those commodities that remain controlled, however, substantial review and analysis will still be needed to ensure that proper licensing decisions are made, decisions that will further the ability of U.S. exporters to compete internationally and yet further our national security and foreign policy interests.

Consequently, given the complexities associated with the review of the license applications that we will continue to process, we cannot assume that a projected reduction in the number of license

applications will automatically result in a commensurate reduction in resources needed. What we hope to achieve, however, is a continued reduction in license processing times for those applications we process and a subsequent improvement in the quality of review.

QUESTION:

To what extent do Commerce and Defense share access to data information systems needed for administering export controls? What suggestions do you have to further such shared access and what impact does such sharing have on budgetary costs?

ANSWER:

Since February 1985, the Department of Commerce has provided the Department of Defense, for those cases for which DOD has review authority, direct on-line access to the automated data base maintained for all West-West cases as well as East-West cases for which DOD has review authority. All information available to the Department of Commerce on those cases is immediately available to DOD analysts on an on-line interactive basis. The costs of this access by DOD is about $300,000 per year. Although DOD provided $5,000 for software to start the system, all costs for software, hardware maintenance and data entry are borne by DOC.

DOC intends to continue to pursue the improvements in the Export Control Automated Support System (ECASS) while continuing to meet DOD needs with the current system. In addition, DOC has recommended that DOD provide reciprocal access to both their East-West and West-West computer systems.

QUESTION:

What is being done by Commerce to use information available at the Department of Defense in making foreign availability determinations? Has the Department of Defense been cooperative? What more may be done and what would be the budgetary consequences?

ANSWER:

DOD's Defense Technology Security Administration (DTSA) participates in the assessment process regarding formal decontrol assessments of national security controlled items. DTSA's input is generally in two phases: an early review of the technical aspects and then a policy review after the Office of Foreign Availability has completed its assessment, made a preliminary finding and indicated its recommendation (appropriate decontrol or a national security override followed by negotiations to remove the source(s) of foreign availability). The DTSA imput is consultive in nature. OFA staff also consults with technical personnel in DOD and with the appropriate intelligence agencies.

Dr. Paul Freedenberg, Assistant Secretary for Trade Administration

at Commerce, provided some general conclusions in a hearing late last year regarding interagency coordination. He indicated disappointment that more decontrol had not taken place, by stating the following:

- o What appears to be lacking is an interagency consensus that the letter and spirit of the law be carried out.

- o Specifically, experience indicates that we need greater acceptance in the interagency review process of such fundamental concepts as:

  - Foreign availability needs to receive higher priority;
  - The existence of foreign availability, and a positive finding thereof, is by itself sufficient grounds for an orderly decontrol;
  - Foreign availability has progressed beyond being a narrow focus on items that are indigenous to the Bloc;
  - The mere involvment of U.S. parts or components does not preclude foreign availability if these commodities are not subject to U.S. export controls;
  - To find foreign availability, DOC does not have to prove the absence of any such parts in a product being studied;
  - DOC by statute makes the positive finding after consultation which should be a two-way street of information exchange, but once the finding is made, it should not be revisited at each step of the subsequent implementation process; and
  - The President should be asked to invoke the national security override only on the basis of very strong and detailed rationale.

As you know there has been considerable criticism in the business community and in Congress regarding the lack of decontrol actions resulting from the foreign availability program. Basic concerns have been expressed about such areas as: the policy of limiting decontrol assessments only to West-East availability; the strict interpretation of the regulations regarding such aspects as non-U.S. origin parts, comparable quality, etc.; and the length of time it takes to bring a case to conclusion, often due to interagency differences of opinion.

We believe the Administration's legislative package will go far toward solving many of the issues and criticisms of the existing program and its current statutory/regulatory framework. Among other things, it will address the basic issues of Commerce's authority and the timeliness of the process. It will also provide a less stringent definition of foreign availability in the West-West licensing context. Other proposed changes in the total export control process, e.g., re-export control and parts and components regulations, will all work together to form a more practical and integrated control system as well as greater decontrol.

QUESTION:

Is the shared responsibility for administering export controls between the Departments of Commerce, Defense, Treasury, and State a cost-effective way of administering these controls?

ANSWER:

The present structure of the U.S. export control system is not guided so much by the criterion of "cost-effectiveness" as it is by the need to accommodate various and sometime competing interests. I am sure that my colleagues at the Departments of State, Defense, Treasury, and Energy would agree that the present system is the most practicable, because it is responsive to the interests and perspectives of all concerned. For example, the Defense Department plays an essential role in the review of license applications to ensure the maintenance of our national security interests. Morever, the State Department's review of license applications helps to ensure the furtherance of U.S. foreign policy interests. Accommodating these interests is essential to ensure that our export controls are carried out in the most judicious manner. Besides accommodating the concerns and perspectives of each Department, the present regime also affords us access to a greater range of technical and policy expertise that simply could not reside within one single agency. We can, however, ensure that the present structure remains cost-effective by maintaining a spirit of cooperation in the fulfillment of our various responsibilities.

QUESTION:

What is the status of Commerce's efforts to automate export licensing? What benefits does Commerce expect from greater automation? Would it be cost effective to expedite automation efforts?

ANSWER:

The Export Control Automated Support System is being developed to automate the paper flow process. Attached is a summary of the system development status. The Department's System for Tracking Export License Applications (STELA) is an example of the significant progress we have made since 1984 in improving automation support to the export control program. This system allows an exporter to call the Department of Commerce, and using the "touch tone" keypad on his telephone, obtain status information on his license application. No operator assistance is necessary and all responses are in a computer generated voice. STELA is capable of answering 32 telephone calls at one time, providing the caller with exact status in less than 30 seconds or about 3,000 telephone calls per hour. In a two minute call, an exporter can obtain the status of up to 5 of his license applications. While the voice technology involved is impressive, so too is the data base that supports STELA. In 1984, our data could be accessed in 15 minutes. We have reduced that to less than 1 second to access accurate license status records.

The benefits of our automation approach have been many. Processing times have been reduced by 50% for free world cases. We have improved our enforcement with automated screening to identify questionable transactions and management information on export controls have been improved by a very significant amount. We are now routinely reporting to COCOM on all cases issued on a monthly basis, the first time we have ever been able to accomplish this long agreed upon reporting requirement. But we expect more benefits. We are sure we can reduce license processing times again by at least 50% by early 1988 while at the same time improving the quality of the license process. We will further improve our data sharing with other Departments.

In FY 1986, a cost/benefit analysis of the ECASS system was completed. The results showed that there would be significant savings to the Federal Government and U.S. Exporting community.

Economic Development Administration

FIBER OPTICS

QUESTION:

Mr. Secretary, the National Bureau of Standards request includes 6 new positions and $500,000 to provide measurement technology of fiber optics in modern communications and computer systems. I'm willing to support that request, now what will you do with regard to my fiber optics facility in South Carolina. Mr. Swindle has a lot to say about it, but if the EDA rescission dies on March 15th as expected, when can we expect the $4,000,000 to be granted to Lexington County?

ANSWER:

Under Public Law 99-190, FY 1986, Congress made available to Lexington County South Carolina a $4.0 million grant for development of a "state of the art" fiber optics/medium power cable research facility.

During FY 1986, EDA solicited an application from Lexington County pursuant to the original appropriation. There have been a number of meetings between EDA officials in Washington and the Region. The project proposed by Lexington County would make available a building constructed with $4,000,000 of Federal funds, to be rented and then sold to a private company, Pirelli Cable Corporation of Rahway, New Jersey. Pirelli Cable Corporation is owned by two foreign companies: Societe Internationale Pirelli, S.A. of Basle, Switzerland and Pirelli, S.P.A. of Milano, Italy.

After considering several proposals, EDA was unable to make funds available in FY 1986. Lexington County was asked to show that Pirelli was making monetary contributions adequate to pay for the building funded with EDA's grant. EDA is prohibited, by law, from making grants directly or indirectly to for-profit entities.

EDA is required to make an unconditional grant. Congress has directed that the funds be disbursed without regard to laws designed to protect civil rights, the environment, or Davis Bacon wage rates, to name but a few.

This grant is being made

- without environmental or civil rights findings or conditions.
- without paying prevailing wage rates
- without conditions designed to ensure engineering soundness, prudent procurement practices or conflict of interest prevention
- without eligibility requirements
- without evaluating whether the Pirelli facility will be subsidized to unfairly compete with existing business
- without requiring any contribution from the grant recipient
- without any assurance that the project will create jobs for the long-term unemployed or low-income families
- without competition
- without consideration of employment criteria

EDA expects this grant to have a significant, negative impact. This grantee is receiving its funds on a preferential basis unavailable to any other EDA grant recipient. In effect. these grant dollars are more valuable because they are unencumbered by Federal restrictions which often prove costly to grantees but which are designed to promote the protection of the environment, civil rights and so forth. Pirelli will get $4 million Worth of assets for total payments of $615,000 spread over 15 years. The present value of that $615,000 is only $245,000, in effect giving Pirelli $4 million for $245,000.

EDA Washington has instructed the Atlanta Regional Office to obtain the completed application from Lexington County as expeditiously as possible. EDA will release funds without further requirement as soon as the appropriate documentation is returned by the applicant. Following is a listing of the statutory and regulatory requirements from which Lexington County and Pirelli will be exempt:

All section numbers refer to the Public Works and Economic Development Act of 1965, as amended ("PWEDA")

1. Eligibility requirements under Title I of PWEDA would not apply.

2. The section 704(e) prohibition that EDA assistance cannot be used for the generation, transmission or distribution of electrical energy or gas would not apply to this grant.

3. The section 604 requirement that EDA determine that the project be properly and efficiently administered, operated and maintained would not apply to this grant.

4. Section 702 of the Act would not apply. This section prohibits EDA from giving assistance to projects that would result in an increase in production of goods, materials, or commodities or the availability of services or facilities, when there is not sufficient demand for such goods, materials, commodities, services or facilities to employ the efficient capacity of existing competitive commercial or industrial enterprises.

5. Under 13 CFR 309.14, the applicant assures that any building or facility financed under the Act will be designed to ensure accessibility and use of the physically handicapped. This regulation would be waived for this project.

6. The requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act and the implementing regulations would not apply to this project.

7. The County of Lexington would not be required to submit evidence of good and merchantable title for the real property acquired or to be acquired for the project as required by EDA regulations.

8. All of the findings required under the Flood Disaster Protection Act of 1973 and EDA's implementing regulations at 13 CFR 309.15(b) would not apply to this project.

9. Even if the project involves public or privately owned land adjacent to or in the vicinity of a federally owned or operated airfield, the County of Lexington would not have to demonstrate that the proposed project is compatible with the airfield land use plan. This finding is required by 13 CFR 309.27.

10. The County of Lexington would not have to provide any non-Federal or in-kind contribution for this grant.

11. There does not have to be a finding on this project that EDA funds will not reduce any Federal assistance previously authorized to the applicant or to which the applicant would otherwise be entitled under the provisions of any other Act. (Section 716 of PWEDA)

12. This project does not have to coordinated with the Appalachian Regional Commission.

13. The project would not have to fulfill a pressing need for the area in which it is to be located as required by section 101(a)(1)(b) of the Act.

14. EDA cannot require the County of Lexington to--if the project involves construction within a metropolitan area of a hospital, airport, library, water supply and distribution facility, sewage and waste treatment work, highway, transportation facility, water development or land conservation project--receive Metropolitan Area comments or have Lexington County certify that the appropriate area wide agency has had the application for sixty (60) days without comments or recommendations being made.

15. EDA may not require a finding that the project will improve opportunities for industrial or commercial facilities establishment or expansion, assist in creation of long-term employment and primarily will benefit long-term unemployed and members of low income families as required by section (101(a)(1)(A) of the Act.

16. The County of Lexington will not be required to submit an Assurance of Job Opportunities for the Unemployed Form as required by 13 CFR 309.10.

17. None of EDA's requirements regarding industrial parks would apply to this project.

18. This particular project would not be required to be consistent with the Overall Economic Development Plan of the appropriate redevelopment area as required by section 101(a)(1)(c) of the Act.

19. EDA's nonrelocation regulations would not apply to this project.

20. None of EDA's statutory or regulatory requirements regarding grant rates or an Economic Development District bonus would apply.

21. Section 712 of the Act requiring that Davis-Bacon wages be paid on EDA construction projects would not apply to this project.

22. State review under Executive Order 12372 would not apply to this project.

23. The County of Lexington would be permitted to use lead based paint in violation of 13 CFR 309.29.

24. All of the environmental findings required by 13 CFR 309.18 would not be applicable to this project.

25. All the Civil Rights requirements contained in 15 CFR Subtitle A, Part 8 and Part 20 and 13 CFR 311.3 could not be imposed on the County of Lexington.

26. This project may violate EDA's property management regulations set forth in 13 CFR Part 314, that is it may be sold, leased or transferred without EDA consent.

27. EDA could not prevent this project even if the fair user test fund showed that this project is not eligible for 100% funding. (Section 101(c) of the Act)

Note: The initial $4,000,000 appropriated for Lexington County, S. C. was reduced 4.3 percent or $172,000 through application of the Gramm-Rudman-Hollings deficit reduction initiative.

COLUMBIA RAILROAD TRACK REMOVAL

QUESTION:

In the Supplemental Appropriations Act for 1985, we provided $5,730,000 for the completion of a project that EDA started to remove the railroad tracks in downtown Columbia, South Carolina. At a meeting at EDA in late 1985 the City was told that this application would be expedited and in January 1986 the City submitted their application. Last April the City was assured that everything was in order. There followed a series of events, including the retirement of an EDA employee, that kept postponing final approval of this project. In December, the City delivered the last item requested by EDA. As a result of all the delays, the $5,730,000 is included in the pending EDA rescission.

Mr. Swindle, the rescission is expected to expire on March 15th. How soon thereafter can we expect the grant of $5,730,000 to be made to Columbia?

ANSWER:

The complexity of this project required a significant regulatory and compliance review. Additionally, the grant is still pending clearance with the State of South Carolina, Single Point of Contact (SPOC). EDA anticipates an award of grant by mid-April provided state clearance is forthcoming.

UNIVERSITY CENTERS

QUESTION:

Mr. Swindle, the Appropriations Act for fiscal 1986 provided $5,000,000 for University Centers. Please provide this committee with a breakdown of how that $5,000,000 was spent. Where funds were spent for projects that did not go directly to a University Center, please provide a justification for its diversion from Congressional intent.

ANSWER:

Of the $5,000,000 initially targeted in FY 1986 for University Centers, EDA had actual obligations of $4,730,781. A complete breakout of the EDA funded University Center program is listed below. It should be noted that, during FY 1986, EDA funded a $150,000 study of the activities of Colleges and Universities in

the field of economic development. The project concluded with a conference of leaders from colleges and universities to discuss their respective roles and ideas. The University Center grantees were active participants in this effort.

FY 1986
UNIVERSITY CENTER PROGRAM

	FY 1986		
	Basic	Suppl.	Local
Philadelphia Region			
University of Southern Maine Portland, ME	$80,000	$62,046	...
Coppin State College, Baltimore, MD	...	...	...
University of Massachusetts, Amherst, MA	80,000	...	...
University of New Hampshire, Durham, NH	80,000	...	...
Rutgers, The State University, Newark, NJ	80,000	...	...
State University of New York, Plattsburg, NY	80,000	...	...
Pennsylvania State University, University Park, PA	100,000	...	...
University of Puerto Rico, Mayaguez, PR	100,000	...	...
Marshall University, Huntington, WV	100,000	...	...
Hampton University, Hampton, VA	100,000	...	...
Total, Philadelphia Region	800,000	62,046	...
Chicago Region			
University of Illinois, Chicago, IL	$100,000	$50,000	...
Indiana University/Purdue University, Indianapolis, IN	100,000	...	...
University of Michigan, Ann Arbor, MI	100,000	...	5,848

	FY 1986		
	Basic	Suppl.	Local
Chicago Region (cont'd)			
Cleveland State University, Cleveland, OH	100,000	...	...
University of Wisconsin, Menomonie, WI	100,000	...	...
Total, Chicago Region	500,000	50,000	5,848
Seattle Region			
University of Alaska, Juneau, AK	100,000	...	...
University of Arizona, Tucson, AZ	100,000	...	...
University of Southern California, Los Angles, CA	100,000	...	...
California State University, Chico, CA	100,000	...	...
University of Hawaii, Honolulu, HI	100,000	43,000	...
Boise State University, Boise, ID.	100,000	60,000	...
Oregon State University, Corvallis, OR	85,000	...	...
Washington State University, Pullman, WA	100,000	...	...
Total, Seattle Region	785,000	103,000	...
Austin Region			
University of Arkansas, Little Rock AR	$80,000	...	...
Louisiana State University, Baton Rouge, LA	...	...	...
University of New Orleans, New Orleans, LA	80,000	...	...
Xavier University, New Orleans, LA.	100,000	...	...
University of New Mexico, Albuquerque, NM	80,000	...	...

	FY 1986		
	Basic	Suppl.	Local
Austin Region (cont'd)			
East Central University, Ada, OK...	80,000	...	...
University of Texas, San Antonio, TX.....	85,000	...	...
Total, Austin Region.....	505,000	...	...
Denver Region			
University of Colorado, Boulder, CO.....	85,000	47,000	...
Iowa State University, Ames, LA...	80,000	75,000	...
University of Missouri, Columbia, MO.....	80,000	...	...
Montana State University, Bozeman, MT.....	100,000	...	...
University of Nebraska, Lincoln, NE.....	100,000	...	...
North Dakota State University, Fargo, ND.....	85,000	...	...
Total, Denver Region.....	530,000	122,000	...
Atlanta Region			
Auburn University, Auburn, AL.....	$80,000	$50,000	...
Tuskegee University, Tuskegee, AL..	100,000	...	...
Florida State University, Tallahassee, FL.....	84,000	...	$30,000
Atlanta University, Atlanta, GA....	...	...	...
Georgia Institute of Technology, Atlanta, GA.....	80,000	52,887	...
University of Kentucky, Lexington, KY.....	80,000	...	...
Mississippi Research and Development Center, Jackson, MS.....	80,000	...	30,000

	FY 1986		
	Basic	Suppl.	Local
Atlanta Region (cont'd)			
Mississippi Valley State University Itta Bena, MS.....	100,000	...	...
West Carolina University, Cullowhee NC.....	80,000	40,000	...
Benedict College, Columbia, SC.....	100,000	...	...
Memphis State University, Memphis, TN.....	80,000	51,000	...
Total, Atlanta Region.....	864,000	193,887	60,000
NATIONAL			
American Association of State Colleges and Universities Washington, D. C.....	150,000	...	...
Grand Totals.....	4,134,000	530,933	65,848
Total, University Center Funds....	4,730,781		

NOTES Basic: Amounts awarded to Centers for their ongoing programs.
Supp.: Amounts awarded to Centers under special University Center competitions, such as the incentive and long-term supplemental grants.
Local: Amounts awarded to Centers under Local Technical Assistance Competitions.

QUESTION:

Mr. Swindle, in view of the fact that the University Center program was designed to help eligible areas accomplish more effective economic development programs, how can you justify a "graduation" program that would eliminate the most experienced centers and diminish the quality of economic development programs in needy areas?

ANSWER:

The original intent of the EDA-funded University Center program was to provide "seed" money to encourage the initial establishment of University Centers. Many of these Centers have been funded since the program's inception some years ago and are capable of being self-sustaining without farther EDA assistance.

By returning to the original concept of "seed" money, the graduation policy will, in effect, allow Federal resources to be used to establish other University Centers.

QUESTION:

Assuming the EDA rescission will not be approved, how much does EDA plan to allocate to the University Centers Program in fiscal 1987? Will all of that go directly to University Centers?

ANSWER:

EDA will allocate all funds exactly as has been appropriated by the Congress.

QUESTION:

Do you intend to submit any proposed graduations from the University Center program to the Committee as stipulated in the Conference Report on the Continuing Resolution for fiscal year 1987?

ANSWER:

EDA anticipates no graduations during FY 1987.

Minority Business Development Agency

Small Business Administration

QUESTION:

Mr. Secretary, a major change in administration policy is the proposal to transfer the Minority Business Development Agency to the Small Business Administration. Previously, it had been the other way with Small Business Administration being merged into the Commerce Department.

What prompted the change in policy?

ANSWER:

The Administration has proposed this policy in an effort to develop a means of consolidating these programs. Consolidating these programs in one agency was recommended by our Office of Inspector General in order to eliminate duplication and facilitate coordination. Although the Administration's proposal to transfer SBA to Commerce has not been successful, we believe that the consolidation should take place and therefore are proposing to move MBDA to SBA. A similar consolidation was proposed by the Senate in FY 1979 (Report 95-1043).

QUESTION:

There is much concern that the focus of minority business concerns and needs would be diluted in a merger of MBDA into SBA. For instance, hasn't MBDA established close relationships with major corporations while SBA champions small business. How will those disparities be worked out in the merged organization?

ANSWER:

A joint task force representing OMB, SBA, MBDA, and the Department of Commerce has been formed to facilitate the consolidation of program responsibilities. I believe that the merger can be worked out in a way that will maintain quality assistance to minority businesses.

QUESTION:

How much is expected to be saved by transferring MBDA to SBA?

ANSWER:

In 1988, $3.7 million or approximately 10% of MBDA's total budget would be saved. An annual savings of $8.3 million will be achieved in Commerce when the consolidation is complete. An additional $4.8 million would be saved in SBA's budget through reduction in funding for the same kinds of activities that are being, and will continue to be, provided by the BDCs.

Questionable Travel

QUESTION:

The Subcommittee has received a letter from "Concerned MBDA Employees". The letter indicates that the Department's Inspector General has begun an investigation of MBDA Director Jim Richardson Gonzales.

What is the status of that investigation?

ANSWER:

The Office of Inspector General, Department of Commerce, conducted a review of the official travel performed by James H. Richardson Gonzales, Director, Minority Business Development Agency. The facts and statistics disclosed during the review did not warrant any further investigation. The Office of Inspector General, Department of Commerce, considers this review completed and closed. No travel abuses were discovered and all documentation was most satisfactory.

QUESTION:

While we understand that Mr. Richardson did not make 100 trips to Texas, as aileged by the employees, in the last three years, he did make 26 trips to Texas since 1984. We also have been supplied with a Calendar of Events dated January 21, 1987. That indicates that

Mr. Richardson was scheduled to travel 4 times to Texas between January 23rd and April 25, 1987.

Why does Mr. Richardson travel to Texas so often?

ANSWER:

As Chief Advocate of Minority Business Development in the country, Mr. Richardson Gonzales is frequently invited to address major national or regional impact minority events - 47 speeches during 1986 alone (10 in Texas). The size of Dallas and San Francisco regions, which cover 19 of the total 39 states covered by the 6 MBDA regional offices obviously require more travel to those reigons.

For the specific period in question (January - April 1987), Mr. Richardson Gonzales' itinerary includes the following:

- SER Jobs for Progress, Inc., National Conference. James Richardson Gonzales has been asked to address the SER National Conference and be recognized with an award from the National SER Board of Directors. Last year, this conference was held in Miami, Florida. This is not an MBDA sponsored event. This trip will be coordinated to coincide with the Dallas Regional Conference (11 states), which is being conducted simultaneously in Dallas, Texas (April 15 - 17, 1987).

- The American Association of Community and Junior Colleges National Board of Directors have asked that James Richardson Gonzales address the awards program and participate in the conference as a newly appointed Advisory Committee Member. Last year's National Conference was in Orlando, Florida. This is not an MBDA sponsored event. (April 22 - 25, 1987)

- The trips to San Juan, Texas and South Padre Island, Texas were initiated on January 24, 1987. James Richardson Gonzales was the keynote speaker addressing the Texas Municipal League Regional Conference on border industrialization efforts. This conference consisted of mayors, city councilmen, county judges, and other elected officials. MBDA funds the Lower Rio Grande Valley City Conference of Mayors (totaling 23, all minorities) for purpose of implementing economic recovery efforts for the Mexican peso devaluation and the 1983 citrus freeze impact.

None of these trips were/are initiated by MBDA, with the exception of the Dallas Regional Conference which is one of 12 semi-annual events convened in all MBDA's six regions throughout the country. As previously noted, the DOC Inspector General did not feel that further action was warranted.

Mr. Richardson Gonzales does not undertake sole purpose trips but rather combines two or more functions into each trip. Mr. Richardson Gonzales' travel has been conducted on a most cost efficient basis.

Management Deficiencies

QUESTION:

The Department Inspector General published six reports during the past two years identifying numerous management deficiencies within the MBDA. Are you satisfied that your senior managers are on top of this situation and these deficiencies are being properly addressed?

ANSWER:

MBDA, working with the Office of Inspector General and the Office of the Secretary, have determined that significant improvements in the Agency's operation could be achieved through a realignment of several functions. I am satisfied that my senior managers are on top of this situation because they are working closely with MBDA to implement an approved Agency reorganization. The reorganization will address the deficiencies and strengthen program management.

Grants

QUESTION:

The Inspector General found that the extensive delays in processing grant awards hindered program effectiveness. MBDA's corrective action was to restructure and staff the offices involved in the grant approval process. We understand that the grants are being processed in a more timely way, but monies are being denied. Furthermore, the regional offices don't know when grant applications are disapproved or overturned at MBDA headquarters. Is this so and why?

ANSWER:

MBDA grants are being processed in a more timely manner evidenced by the fact that last year (FY 1986), 95% of the award packages were processed. As to the matter of monies being denied, most of the MBDA processed grants do receive final approval. When some do not, and these are a small number, it is due to either unsatisfactory prior performance, an existing outstanding debt to the Department, or an unsatisfactory and unresolved audit finding.

As to the matter of MBDA regional office grant action notification, all regional offices are provided, at least once a week, a separate status report of pending financial awards. Also, within four or five days of the applications approved, regional offices of MBDA are provided a copy of the actual financial assistance award document.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTION:

Landsat

Mr. Secretary, On December 16, 1986 the Department of Commerce submitted a plan regarding the Commercialization of Landsat. The plan called for one satellite and ground system at a cost of $209.2 million. In addition, the launch of the satellite is projected to cost $50 million.

It was clear to Senator Rudman and myself that the proposal does not conform with the intent and spirit of the Land Remote Sensing Commercialization Act of 1984. We found no one in Commerce, at EOSAT, or elsewhere that would say the plan would achieve Commercialization of Landsat absent a commitment on the part of the Administration to provide a second satellite and additional subsidies. These additional subsidies could range up to $150 million, including launch costs. Both the Department of Commerce and the Office of Management and Budget ruled out additional funds above the amount in the plan for this program.

Given the budget constraints, this could adversely impact other programs of the National Oceanic and Atmospheric Administration if Landsat subsidies are continued. Therefore we had to regretfully disapprove the commercialization plan and reprogramming on January 23, 1987.

Have you given any further consideration to the Landsat matter?

ANSWER:

Following the disapproval by the Senate Appropriations Subcommittee of the one-satellite plan on January 23, 1987, DOC has been investigating other possibilities. However, we do not have the resources to increase the funding for the program above the President's budget. A proposal for a revised Landsat program is currently under review within the Administration.

QUESTION:

FACILITIES CONSOLIDATION

I understand that you plan to move the Under Secretary for Oceans and Atmosphere and the rest of the NOAA Headquarters staff out of the Commerce Department and all the way to Silver Spring. Doesn't this move increase the danger that NOAA will be out of sight, out of mind for the Commerce Department?

ANSWER:

For three years NOAA and the General Services Administration (GSA) have worked closely in an effort to consolidate all of NOAA's scattered operations (4,700 employees occupying 1.1 million square feet of space in 18 buildings) in the Washington area at a single location.

Since NOAA's creation in 1970, this dispersion of facilities has proven inefficient, frustrating and costly. Simple actions such as convening meetings of the agency's leadership consume much unproductive time; program coordination is made immeasurably more difficult; and it is estimated that over $5 million in avoidable costs is expended annually as a result of this dispersion.

In 1986 GSA issued a solicitation requesting expressions of interest from private developers who could offer a partially completed complex with sufficient subsequent space to assure accommodation of NOAA's full consolidation requirements. At the same time, NOAA identified the Silver Spring as a consolidation site, NOAA began to identify alternatives for which portions of the agency should move into this first structure.

There are really two primary options. The first was simply to relocate most of the current National Weather Service tenants of the Grammax Building, also in Silver Spring. The scene of a major fire a few years ago, this has long been a problem lease for both NOAA and GSA over the years. A move to the first building would be a replacement of poor space with much better facilities.

The second alternative was to move NOAA's headquarters to the new building in Silver Spring. This would be an opportunity with a single bold move to bring together the entire leadership of the agency, including all of the Assistant Administrators - something that had never been possible before. This move would reflect the Administrator's firm commitment to NOAA's total physical consolidation, and the agency could reap immediately some of its benefits. In addition, this alternative would permit secondary consolidations and removal from inventory of buildings at other locations. Some of the NOAA-vacated space, as at the Suitland Federal Center and the Hoover Commerce Building, will be used to consolidate other scattered units of the Department of Commerce.

In the end the second alternative was adopted because it represented a rare opportunity to take a major step toward true agency consolidation and because of the obvious immediate benefits to NOAA and the Department. In making this decision, however, we are not unmindful of the pressing needs at the Grammax building, and their quick resolution is a high priority in our further actions at the Silver Spring consolidation site.

NOAA's importance to the Department of Commerce will not diminish because of the pending move of NOAA headquarters from the Hoover Commerce Building to new facilities in Silver Spring. A number of Departmental components such as the National Bureau of Standards, the Bureau of the Census and the Patent and Trademark Office are located away from the Hoover Building in facilities of their own, and these units have received no less attention from the Department of Commerce as a result of physical separation. There will be no disruption of communication with the Department as a result of the move; in fact, because of faster communications within NOAA, the flow of correspondence, clearances and so forth to and from the Department will probably improve as consolidation proceeds.

QUESTION:

NOAA CHIEF SCIENTIST

Public Law 99-659 established the position of Chief Scientist to direct and coordinate NOAA's research and scientific activities. I hear that last week we lost an outstanding candidate to the National Science Foundation. What is being done to get NOAA a Chief Scientist?

ANSWER:

Yes, unfortunately, about a week ago our selected candidate for Chief Scientist made a decision to withdraw his name. I am currently working vigorously with the scientific community to select another qualified candidate. Like you, I am anxious to have a Chief Scientist on board and I am committed to do whatever I can to have a candidate nominated and confirmed as quickly as possible.

Patent and Trademark Office

QUESTION:

Page PTO-2 of the estimates points out that the goal of reaching 18 months patent pendency has slipped and additional funds will be needed in FY 1988 to reach the 18 month goal in 1989. What additional funding, staff, etc. are being requested and why do you believe the 18 month goal will be met in 1989?

ANSWER:

The 1986 budget estimated patent application filings at the 107,000-109,000 level. Actual receipts were 121,611. This large increase in filings, which is continuing in 1987 and beyond, exceeded our production capacity. As a result of these higher filing levels, we postponed the achievement of the 18 month pendency goal to 1989 and built up our production capacity in late 1986 and in 1987. The 1988 budget request recognizes future increases in filings and the requirement for increased production capabilities.

Our FY 1988 budget request, now pending before the Congress, asks for an additional $4.7 million and 95 positions (118 FTE) to hire more examiners to deal with the increased patent application filings we are now experiencing, plus $.3 million with 3 more positions to provide the needed clerical support. We are also requesting 21 positions and $.5 million in the pre- and post-examination functions to assure the timely and accurate processing of patent applications to and from the Examining Corps. If actual filings occur essentially as estimated in the budget, we appear on target for reaching the 18 month pendency goal in FY 1989. This assessment is based on current filing levels and the rate

of pendency reduction we've achieved so far. The program will require continuing strong effort by all involved utilizing extensive overtime and hiring to further reduce the backlog of cases while maintaining good examination quality.

QUESTION:

How many patent attorneys and computer/automation specialists have left the agency during the past year? What was the average number of years each group spent with PTO? How does the turnover rate compare with the previous years?

ANSWER:

During the FY 1986, 154 patent examiners left the PTO, and 20 others transferred to other positions within the PTO. The office-wide attritions averaged 6.8 years in the PTO, while the overall average from examination losses was 7.6 years.

For FY 1987 (through February 28) the examination tenure loss has averaged 10.7, due to a relatively high number of retirements early in the year.

The experience we've had with attritions has been very much in line with an organization hiring heavily from among the best recent college graduates. These attritions are in line with our plans and we have not experienced any big problems because of it.

During FY 1986 there were no separations of computer/automation specialists (Job Series 334). However, during the previous year there were five separations of computer/automation specialists which represented a turnover ratio of about 14 percent. We have no data on the average number of years they spent with the PTO. During the past two years, there were budget increases for 24 computer/automation specialists which along with the five separations from 1985 resulted in 29 vacancies to be filled during those two years. Those vacancies which are mostly filled represented about 50 percent of the total number of computer/automation specialists currently authorized.

QUESTION:

What impact does the turnover rate have on PTO's mission and goals?

ANSWER:

There is minimal impact on achieving PTO's objectives because anticipated turnover rates are taken into account when goals are established.

QUESTION:

What safeguards exist in PTO's computerized patent systems to ensure that American technologies and innovations are not stolen by foreign competitors?

ANSWER:

Two major computerized systems contain information regarding American technologies and innovations. Each contains information related to patents and applications for patents.

(1) The Patent Application Location and Monitoring System (PALM) contains basic bibliographic information related to patents and patent applications. Bibliographic information consists of such elements as inventor's name, filing date, application serial number, patent number, title of invention, etc. There is no detailed information (beyond the title of the invention) contained in the PALM System which could be used by foreign competitors interested in copying or utilizing the technical disclosure contained in the patent application. Access to the PALM System data is limited to PTO employees in non-public PTO processing areas. PALM information relating to patent applications containing security classified disclosures are at minimal risk consisting only of skeleton information - the title of the invention, for example, is not available for such applications. Security classified applications are maintained in a physically secure environment.

(2) The Automated Patent System (APS) contains no information relating to pending applications. Data contained in the APS is limited to the disclosure information available in published and publicly available patents which do not contain security classified information. Technical information disclosed in published patents can be used by foreign, or domestic, competitors. Normally, use of the technology is licensed by the inventor to one or more companies interested in applying the technology. Unfair use of patented technology (i.e., not licensed by the inventor) must be addressed through legal procedures and actions brought by the inventor or the firm(s) holding legitimate licenses for its use.

Presently, the Electronic File Wrapper (EFW) capability, which would involve loading all confidential patent application papers on APS, has been deferred pending subsequent management approval. Evaluation of the EFW capability has been tentatively scheduled for early 1990. During that evaluation, rigorous security measures will be fully tested and evaluated.

QUESTION:

On PTO-3 you state that on October 5, 1985 patent fees were increased to recover appropriate program costs for the 1986-1988 fee cycle period. Does the fee schedule include a future inflation factor to cover any increases during the 1986-88 period? If so, will the estimated percentage increase for each year depend on the Consumer Price Index?

ANSWER:

No, there is no future inflation factor built into the current patent fees. Public Laws 97-247 and 99-607 both permit only a fee increase not to exceed the actual experienced inflation of the three previous years as measured by the Bureau of Labor Statistics' Consumer Price Index. The current fees reflect the 11.8 percent increase in the Consumer Price Index for the three years ending September 30, 1985.

QUESTION:

What percentage of PTO's fiscal year 1988 budget will be spent on automation, computers, and software? How much of this total is spent on outside contractors?

ANSWER:

The PTO Automation budget for 1988 is $74,955,000 which represents about 26.5 percent of the total PTO budget request for fiscal year 1988. Of this amount, $27,778,000 is for computer hardware (about 9.8 percent of the total PTO budget) and $1,219,000 is for licensed software (about 0.4 percent of the total PTO budget). Of the Automation request of $74,955,000, $63,658,000 is spent on outside contractors (or about 22.5 percent of the total PTO budget).

The following questions relate to oversight of PTO's efforts to automate its office functions and the Patent and Trademark processes by 1990.

QUESTION:

What internal and external resources does PTO assign to audit the development of these automation projects to help insure that they will work effectively and be completed on schedule and within budget?

ANSWER:

Internally, the PTO has allocated resources to develop a comprehensive management strategy to ensure reasonable, practical, technical and managerial control over the automation project. This strategy involves the following factors:

- Preparation of a comprehensive Master Plan encompassing the entire spectrum of USPTO automation to provide a basic structure for management review and control.

- Use of project management techniques to pinpoint responsibility and authority and ensure USPTO and Department of Commerce (DOC) management oversight and involvement in automation decisions.

- Use of system life cycle concepts and guidelines to introduce a proven structure into complex, long-term development projects, to provide the framework for a multilayered quality assurance program, and to focus key management decisions.

- Dependence on "Competitive Acquisition Approach" using functional specifications to allow creative private sector solutions and proven source selection methods to ensure fairness and appropriate consideration of all relevant factors in making award decisions.

Program oversight is performed by the ADP Coordinating Committee which is chaired by the Commissioner and with PTO senior managers as members. This Committee has oversight responsibility for the entire automation program and, in coordination with DOC, makes all key management decisions affecting the program.

Three configuration management boards, one each for Patents, Trademarks and current systems, review the technical and policy decisions that must be made in each project when there is a possibility that technical alternatives will affect a system's capability to meet user requirements, lengthen the time to complete the project, and/or increase the overall project cost. Unresolved issues are raised to the ADP Coordinating Committee.

The PTO also has used the services of five independent contractors:

- The MITRE Corporation serves as an independent quality assurance point for the development efforts and directly supports the evaluation process.

- The Institute for Computer Science and Technology of the National Bureau of Standards provides technical reviews of the Automated Patent System statement of work and product assurance plans.

- The Federal Computer Performance Evaluation Simulation Center (FEDSIM) is presently working with the DOC Office of the Inspector General in auditing the PTO automation project.

- McDonnell Douglas is doing independent verification and validation of the Automated Patent System, and assisting with administrative controls.

- J.B. Sea (a private corporation) is providing program management and configuration management support.

Externally, oversight is provided by the following:

- The Department of Commerce Review Board for the Evaluation of the Group 220 Testbed is responsible primarily for reviewing and monitoring evaluation criteria developed for each component of the testbed, and reviewing and monitoring evaluation products prior to operational or management decisions based on those products.

- The ad hoc American Intellectual Property Law Association (AIPLA) Test and Evaluation Committee is reviewing the scope and sufficiency of the tests utilized in the Group 220 testbed.

- DOC's Information Resource Management (IRM) review process involving the Assistant Secretary for Administration as the Department's Senior IRM official.

Public Law 99-607, the PTO's authorizing legislation, requires that key automation deployment decisions be reported to the Congress 90 days prior to their implementation. Deployment decisions are reviewed by the Department's Review Board for the Evaluation of Group 220, which makes its recommendations to the Assistant Secretary for Administration/Senior IRM Official, who forwards the decision and the accompanying report to the Congress, after it is reviewed by OMB.

Audit activities have been conducted by the General Accounting Office and the DOC Office of the Inspector General.

Finally, an Advisory Committee for Patents and Trademarks has been chartered to advise the PTO on a broad range of policy matters, as well as the administration of its automation programs.

QUESTION:

Is such an audit function independent of the organization responsible for developing the automation projects?

ANSWER:

As described above, significant aspects of the oversight/audit function are independent of the organization responsible for developing the automation projects.

QUESTION:

Are any written reports prepared for management assessing progress being made on individual automation projects? Please provide any such reports prepared during the last year for the record?

ANSWER:

The most important written report is the Automation Master Plan, which is used by PTO managers, contractors, DOC, and OMB to guide the automation program. It contains goals and objectives, the plan of action, implementation schedules, and costs and benefits associated with the program.

The 1987 edition is presently being reviewed by the Administration and will be sent to the Congress shortly. The purpose of this edition of the Plan is to adjust automation program schedules to reflect current status and development expectations, and to identify accomplishments and progress to date.

Another important written report is the Full-Text Search deployment decision which was forwarded to the Congress in August 1986. That report documents the evaluations and analyses, including costs and benefits, that were used as the basis for making the decision to deploy limited full-text search capability to patent examiners.

Other major reports include:

- GAO Report: Patent Automation Encountering Major Planning and Procurement Problems (GAO/IMTEC - 86-19) - July 1986

- DOC Report: Review of Patent and Trademark Automation - July and September 1985

- GAO Report: Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operations (GAO/IMTEC - 85-8) - April 1985

On-going formal reports include:

- Quarterly status reports to the Deputy Secretary on the Secretarial MBO entitled, "Automate the patent and trademark processes by 1990." The MBO tracks the milestones included in the latest edition of the Automation Master Plan.

- Quarterly status reports to OMB for the Management Improvement Plan entitled, "PTO Automation." Milestones included in the latest edition of the Master Plan are tracked.

Informal feedback to management includes:

- PTO contractors are required to report status frequently. For example, Planning Research Corporation, the systems integration contractor for the Automated Patent System, submits a status report each month along with its invoice.

- The Office of the Inspector General is evaluating the Group 220 testbed evaluation and periodically meets with PTO staff.

- PTO managers meet with the DOC Review Board for the Evaluation of the Group 220 Testbed.

- Both PTO and DOC managers meet periodically with the American Intellectual Property Law Association Test and Evaluation Committee to share information.

- The PTO also meets regularly with the United States Trademark Association to exchange information on automation as well as other matters.

- Several times each month, program personnel brief the three configuration management boards and the ADP Coordinating Committee on current progress, as well as planning related issues.

We are including, for the record, the formal reports indicated above that were issued during FY 1986.

QUESTION:

What impact does the turnover rate have on PTO's mission and goals?

ANSWER:

The projected turnover of patent examination professionals is built into our current planning to achieve 18 months pendency by 1989. Our management staff uses a computer simulation model to estimate the impact of the most likely mix of attritions and new hires. Each year as we experience actual gains and losses we adjust our planning to arrive as closely as possible at the end of year staff configuration needed to realize our long term goals. Since the inception of the plan to achieve 18 months pendency in 1982 we have been able to successfully compensate for fluctuations in attrition rates with our recruitment and training efforts.

Turnover of automation specialists has not been a problem. The absorption of a large percentage of new staff members has presented a management challenge that we have met by carefully selecting experienced personnel that have needed little training, per se.

QUESTION:

What internal control system has PTO established to ensure that the user fee collection program is properly administered?

ANSWER:

The Patent and Trademark Office has put in place a system that tracks the allocation of resources functionally down to the "office" level, or one level below the detail shown in the budget. The office managers who actually supervise the production of products and services are responsible for any modification of the plans as required to balance outputs in the most cost effective manner.

This system was established with the PTO Office of Budget, Planning and Evaluation to pull together elements of the financial and staff measurement systems. Over the past two years the system has been reviewed by the Department of Commerce Management Review of the Automation Project (July 1985) which stated:

- The budget and financial management operations in the Agency are well organized and responsive to Agency and Department management.

- The fees charged to the public are consistent with standing law and are allocated in the manner approved by the Congress and OMB.

The PTO instituted an evaluation of the internal controls over the system in accordance with the intent of the Federal Managers Financial Integrity Act of 1982 (Public Law 97-255) and OMB Circular A-123 and found the system provides reasonable assurance that the objectives prescribed by the Act are being achieved.

In addition, the PTO, working with the Trademark Advisory Committee, has developed formats for financial reports that meet the needs of concerned users. These financial statements have been disseminated to the committee quarterly since the second quarter of FY 1986.

Bureau of the Census

QUESTION:

The 1990 Decennial Census is expected to cost $2.6 billion. The 1980 Census cost $1.1 billion and only missed less than 1 percent of the population. While we all want the most complete census possible, anytime you can get within 1 percent of a universe of 200,000,000 is pretty good.

How much are we actually adding to the cost of the census by reaching for those last few persons. For instance, if we only planned on a $2 billion census, how much accuracy would we lose?

ANSWER:

We agree that overall coverage of the population was very good in the 1980 census. However, the coverage was not the same for all geographic areas and subgroups of the population. Such differencies can lead to inaccuracies in apportionment and redistricting. Our basic mandate is to provide the counts used for these purposes and to make them as accurate as possible for all areas and for all groups. In addition, census counts at various levels of detail are used in formulas for distributing billions of dollars for Federal, state, and local programs.

With reduced levels of funding, we would choose to reduce the scope and timeliness of the data products program before we would reduce our efforts to minimize overall and differential coverage errors.

Maintaining or improving the 1980 level of coverage is an integral part of many complex and interrelated systems and operations within the decennial program. For example, the accuracy of the address list and the maps used for collection and control of the census clearly can affect the quality of coverage. Similarly, the use of an automated address control file to keep track of the status of enumeration on a unit level will contribute to the quality of coverage.

Many of these same systems also serve other major goals and needs of the decennial program besides coverage improvement, of course. That is, improving overall coverage or reducing differential levels of coverage are not just the result of a set of special, distinct operations that can be added or dropped without effects on the rest of the decennial program. For this reason, we cannot estimate what levels of coverage will result from different levels of funding. However, a $600 million reduction (23%) to $2 billion would result in lower coverage than in 1980, and likely would result in even larger differentials between areas and subgroups of the population. And, as stated above, a funding reduction of this size would not allow us to fulfill expectations for 1990 data products that are at least at the same level of quality and content as in 1980. Many changes to the overall design of the 1990 census would be required, and most of these would reduce our ability to maintain or improve the control, timing, and quality of the decennial program.

National Telecommunications and Information Administration

QUESTION:

Has employee turnover at NTIA in recent years been abnormally high? Has NTIA's ability to perform its mission been hampered by the turnover rate?

Has turnover been worse among the technical and professional staff as opposed to the support staff? If so, what are the reasons for this and what can be done about it?

What percentage of NTIA's technical and professional staff have left the agency in the past two fiscal years? What is the trend?

What percentage of NTIA's SES staff have left the agency in the past two fiscal years? How has this affected NTIA's ability to carry out its mission?

ANSWER:

No. NTIA's ability to perform its mission has not been hampered by turnover through redirection of personnel resources and priorities.

Turnover has been slightly higher for support staff than technical and professional staff.

Approximately 14% of NTIA's technical and professional staff have left in the past two years. NTIA currently faces a shortage of scientific-oriented personnel, especially engineers, and continues to have difficulty in hiring for these positions.

For FY 1985 and 1986 approximately 22% and 8%, respectively, of the SES staff left the agency. All of these positions were noncareer executives. NTIA's ability to carry out its mission has not been affected because temporary appointments were made until permanent replacements could be designated.

QUESTION:

The NTIA budget refers on page 39 to an increase in Consolidated Consulting and Related Services from $72,000 in 1986 to $231,000 in both FY 1987 and 1988. What accounts for this increase in the use of consulting services? Is it targeted for a specific area?

ANSWER:

From FY 1983 through FY 1985, NTIA spent $250,000, $638,000 and $386,000 respectively for consulting and related services and, therefore, views the $72,000 spent in FY 1986 as an atypical year. The majority of the costs for FY 1987 and FY 1988 are associated with the activities for implementing the China Protocol (services from the National Council for U.S./China Trade). In addition, NTIA makes limited use of consultants to provide scientific or technical expertise in specialized areas.

QUESTION:

What recent studies has NTIA conducted to measure whether the Government's portion of the electromagnetic spectrum is being used efficiently?

a. How many full-time staff members are assigned to monitor radio frequencies to ensure that specific frequency assignments are being used effectively?

b. In the past year has NTIA reassigned any frequencies held by federal agencies because they were used ineffectively? Provide a listing and description of these cases, if any.

c. Have NTIA and the Federal Communications Commission cooperated on any studies to analyze the efficiency of both the private and public use of the electromagnetic spectrum? Please provide copies of any such studies.

d. What are your views on charging each Federal agency fees for the radio frequencies assigned to them as a means of encouraging effective use?

ANSWER:

To ensure that Federal Government agencies use only the spectrum necessary to satisfy their needs, all requests by Federal agencies for frequency spectrum are reviewed through a spectrum management process. The Federal spectrum management process includes a follow up review program where each existing frequency assignment is reviewed every five years to ensure the Federal agency continues to have a valid requirement. If not, the frequency assignment is released. Through this process, the Federal Government ensures that their usage of the spectrum is effective and efficient not only initially but on a continuing basis. NTIA also conducts a number of studies each year investigating spectrum use patterns, future needs, operational problems, and new spectrum conservation techniques. There is no need to make special measurement studies to determine spectrum efficiency because the spectrum management process inherently fosters spectrum efficiency and effectiveness.

There are no staff members specifically assigned to monitor radio frequencies for effective use. The spectrum management process and assignment review activities involve the entire spectrum management, analysis, and operations staff which is currently authorized at 112 FTEs. Once a frequency assignment or a license to operate is granted by NTIA or the FCC, respectively, the actual spectrum use is not monitored unless there is an operational problem or a random check for compliance is made to ensure the use of the frequencies within the assigned specifications. NTIA periodically visits various locations throughout the United States to validate the Government's use of certain frequencies and compliance with the conditions under which the assignment was given.

NTIA reviews each frequency assignment every five years. Presently, the Federal Government has approximately 220,000 frequency assignments. In 1986, approximately 10,050 frequency

assignment authorizations were relinquished as a result of this five-year review program. These assignments were relinquished because they were no longer needed by the Federal agencies and not because they were necessarily used ineffectively or inefficiently. It is important to note that NTIA, through its spectrum management process, ensures that an agency's request for spectrum is effective and efficient before it is approved.

Since the majority of spectrum is shared between the Government and the private sector, it is imperative that NTIA and the FCC cooperate in the management of the frequency spectrum. This ensures the needs of both the private sector and the Federal Government are satisfied. The FCC continually keeps NTIA appraised of current activities from the private sector point of view and NTIA keeps the FCC appraised of the Government's activities. Through this cooperative effort, both the FCC and NTIA have had the opportunity to provide their views on a variety of spectrum issues and policies. Many of these issues and policies have required that the FCC and NTIA together perform measurements and analysis, prepare procedures and proposals, and develop policies. To enhance the national spectrum management process, NTIA will continue to expand its long-range plan for the use of the radio spectrum in coordination with the FCC.

User fees may be an effective way to ensure that the spectrum is being used efficiently. NTIA has considered such an idea in the past, but realizes that we must be very cautious in exploring its possible implementation. Questions such as what would happen to the revenues, what would be the effective net gain, would certain useful uses be foregone because of fees and what effect user fees would have on making other alternative technologies more attractive all have to be answered. Currently, NTIA is directing its resources to examining how to use the spectrum more efficiently without charging fees.

QUESTION:

Page 16 of the NTIA budget estimates states that NTIA will continue to seek innovative ways to aid expansion of telecommunications in developing countries.

a. Please describe the ways NTIA is or has helped expand developing country telecommunications in the current and past fiscal years. How are these efforts coordinated with the Department of State's foreign policy goals?

b. To what extent, in terms of the value of goods and services exported, has NTIA helped expand U.S. firms' markets overseas?

c. Please itemize the U.S. government resources, i.e. staff, expenses, or financial incentives, that have or will be invested in helping to expand foreign telecommunications infrastructures?

d. Do the increased exports justify the NTIA focus on this area? What evidence shows any export growth is due to the NTIA efforts?

ANSWER:

NTIA continues to seek innovative ways to aid expansion of telecommunications in developing countries. NTIA and the private sector perform an assessment of the telecommunications infrastructure of certain developing countries to identify areas of immediate need and/or improvement. The developing country reviews the assessment and works with the private sector on specific solutions to those requirements. This approach provides potential market opportunities for U.S. industry. To date NTIA has helped expand developing country telecommunications in the Caribbean and Micronesia.

Caribbean: In FY86 NTIA completed two reports as part of the Caribbean Telecommunications Infrastructure Development Project. The first, "Definition Mission to Jamaica, February 2-13, 1986," describes the findings of a joint Department of Commerce (DOC)/industry technical assessment team which identified 11 projects that would strengthen Jamaica's telecommunications infrastructure. As a result, the Jamaican Government has forwarded requests to the U.S. Trade and Development Program (TDP) for funding for feasibility studies for four of these projects. These studies would be undertaken by U.S. firms. Ensuing discussions between NTIA officials and the Jamaican Minister of Transport and Public Utilities indicate the Jamaican Government will relax restrictions on the private ownership of customer premises equipment.

The second report, "Guatemala Telecommunications Technical Assessment, May 1986," was also undertaken jointly by DOC and representatives of the telecommunications industry. In preparation for this technical assessment, the team met with Guatemalan officials and identified 16 projects that would strengthen the Guatemalan telecommunications infrastructure.

Results to date:

o Bell South has won a $400,000 contract for the management of the installation of a 110,000 line expansion in Guatemala.

o GUATEL, the Guatemalan telecommunications authority, has requested assistance from the Agency for International Development for a scope of work for a study of the partial privatization of GUATEL.

o GUATEL has joined--and this month will host a meeting of--a regional telecommunications organization, the Caribbean Telecommunications Council, the development of which NTIA has been fostering since its 1985 inception.

o GUATEL is expected to request U.S. Trade and Development Program funding for feasibility studies by U.S. firms for four of the NTIA-identified projects.

Micronesia: NTIA has followed closely the results of a 1985 NTIA-led U.S. Government/private sector mission to the Federated States of Micronesia (FSM), the Republic of Palau, and the Republic

of the Marshall Islands. That mission served as a prototype for the effort in the Caribbean and current projects in China, and in Southeast Asia. NTIA has urged the Rural Electrification Administration (REA) to grant loans at favorable rates to these strategically important entities for expansion of their telecommunications systems.

It is important to note that in March, 1985, all three entities were about to commit to turn-key contracts with Japanese firms and their Korean subcontractors. Since 1986, these governments have been paying U.S. engineers to write specifications for U.S. loan applications--and thus have virtually guaranteed the purchase of equipment that is at least 51% U.S.-manufactured.

Results to date:

o Finley Engineering, Lamar, Missouri, won a $55,000 pre-loan contract in the FSM. The FSM total loan request is $41 million. U.S. specifications should lead to U.S. construction and equipment.

o Hicks and Ragland, Inc. from Lubbock, Texas, won a $35,000 pre-loan contract and a $900,000-$1.3 million contract in the Marshall Islands. A $9.25 million preliminary loan request has been submitted to REA by the Marshallese Government.

o Orion Telecommunications Ltd., Washington, D.C. won a $75,000 pre-loan contract in Palau, and another $96,000 construction contract. Through a 10 year revenue-sharing arrangement, Orion is undertaking an $8.5 million contract with the Palau National Communications Corporation.

o FSM Government has requested technical opinions from NTIA.

Coordination: These efforts are coordinated broadly with the State Department's foreign policy goals. Before targeting a particular country for a technical needs assessment, NTIA evaluates responses to NTIA requests for political, economic, and commercial information from each post. These resporses might affect the viability of development telecommunications initiatives in a particular country. The Micronesia effort, for example, was of particular value because of the strategic importance of improved telecommunications in the region.

This NTIA/private sector approach has been successful in the Caribbean, Central America, Micronesia, and more recently in Chile and in ASEAN (Association of Southeast Asian Nations) countries. It was replicated for the NTIA-led mission to China.

Conclusions: NTIA's approach works because telecommunications is government driven in virtually all developing countries. The U.S. Government presence aids in projecting a neutral, objective environment in which the real needs of the country can be explored. It also gives credence to financing requests that follow from the studies conducted. Although the private sector does a good job at exploring their own market opportunities, this approach benefits both the developing country and the U.S. company seeking business overseas.

The U.S. Government, too, benefits from these NTIA-led missions. Relationships are forged during these visits that can be of value in international fora where the U.S. faces the reality of one nation/one vote.

NTIA has undertaken this developing country initiative with caution, focusing first on small countries, known to be friendly to the United States, where U.S. telecommunications firms are seen as having a reasonable chance at success. NTIA's efforts have taken into account the Maitland Commission estimate that $12 billion will be required annually to meet the most basic telecommunications requirements in developing countries as we approach and enter the next millennium.

NTIA intends to undertake an in-depth study of the factors that influence the success of a telecommunications company in these markets. At this early stage it is clear that coordinated, cooperative effort among NTIA, other U.S. Government agencies, and the U.S. telecommunications industry is critical for U.S. success in this market.

NTIA spends approximately $90,000 to execute this program. Staff resources consist of one fulltime telecommunications policy specialist and secretarial support with minimal other costs such as travel. During FY 1987 TDP will reimburse NTIA approximately $185,000 for costs associated with NTIA assessments of several foreign telecommunications infrastructures. NTIA has chosen a trade-driven approach which supports U.S. industry efforts to capture a reasonable share of developing country markets. Cooperating with U.S. trade associations and other government agencies to lead private/public sector teams to assess certain countries telecommunications infrastructure has resulted in NTIA's identification of projects which require immediate attention (e.g. in China, Guatemala, Thailand, etc.) and identification of candidates for participation in the private sector-driven, tuition-free U.S. Telecommunications Training Institute. This approach allows U.S. equipment and service providers to recognize the market potential of these regions and have the opportunity to participate in some of the projects.

QUESTION:

There appear to be several areas where NTIA and the FCC are conducting similar policy initiatives and analyses. For example, both NTIA and the FCC have been undertaking initiatives to improve the chances of AM radio's survival as a commercial service.

a. What formal mechanisms exist between NTIA and the FCC to ensure that each does not duplicate the other's work? Does NTIA discuss its planned analytical efforts with the FCC's top management? How does NTIA coordinate its work with the FCC?

b. Another area where NTIA and the FCC are engaging in similar pursuits is in efforts to enhance minority participation in telecommunications. Again, is there any formal mechanism for each agency to coordinate its work with the other?

ANSWER:

NTIA's initiatives regarding AM radio arise as part of our duty to ensure that the Executive branch views on telecommunications matters are effectively presented to the Federal Communications Commission (FCC) and to Congress. In March 1986, the FCC issued a report from its Mass Media Bureau on all of the regulations pertaining to AM radio. The Commission requested comments on that report. NTIA analyzed the report and submitted comments stating that, while many important issues were raised by the Commission, the most important need of the AM service is to improve the sound quality. We urged the Commission to take steps to limit interference to AM broadcasters from other stations and from manmade sources. We also urged broadcasters and receiver manufacturers to work together to improve the fidelity of AM receivers.

The Commission stated its intention to initiate separate proceedings to evaluate some of the regulations discussed in the Mass Media Bureau's report. NTIA will comment in those proceedings as we determine appropriate.

NTIA's initiative to study the market acceptance of AM stereo arose as part of our concern with overall improvement of the AM service. We did not revisit the FCC's 1981 AM stereo decision and we have deliberately avoided making technical comparisons of the two remaining AM stereo systems as the Commission did in the late 1970s and early 1980s.

In sum, NTIA participates in public notice and comment cycles initiated by the FCC, just as we welcome the FCC's participation in proceedings initiated by NTIA. We are involved in many of the same subject areas, but the two agencies' work does not overlap because the FCC is an independent regulatory agency and NTIA is the Executive branch agency principally responsible for development and dissemination of the Administration's views on telecommunications. The Assistant Secretary and members of the Commission regularly discuss the work and plans of their respective agencies.

For a number of years NTIA and the FCC have had a formal interagency agreement to avoid duplication of effort in assisting minorities interested in entering or expanding into telecommunications businesses. The Minority Business Development Administration has also been a part of the agreement. The most recent agreement was signed in December 1985 to be in effect for two years. The agreement has been successful in stimulating applications and licenses for broadcast stations, identifying financing, providing more clear cut technical assistance, and in reducing the cost and duplication of outreach agency efforts.

QUESTION:

Both NTIA and the FCC's Field Operations Bureau maintain a mobile capability to monitor and measure the actual use of the radio spectrum. This capability consists of a van equipped with instrumentation that can monitor radio signals to ensure compliance with rules and regulations.

a. Is it efficient and effective for each agency to have a separate monitoring capability?

b. Are any efforts made to share resources or coordinate NTIA and FCC efforts?

ANSWER:

Yes, it is efficient and effective. The FCC's monitoring and measuring systems have different capabilities than the type of system necessary for NTIA to perform its required activities. The FCC is primarily concerned with compliance measurements, stemming from, for example, complaints by citizens regarding interference experienced. While NTIA does perform some compliance monitoring, most of its measurements encompass more technical data gathering and analysis needed for determining more efficient and effective spectrum management techniques.

NTIA and the FCC do share resources and information and work together on projects of mutual interest. For example, over the past couple of years the FCC has assisted NTIA in its efforts to determine the location of emitters that are jamming western broadcasts by providing data gathered from its 13 fixed monitoring sites in the continental U.S., Puerto Rico, and Hawaii. Also, NTIA keeps the FCC informed of its measurement activities through the Interdepartment Radio Advisory Committee, to which the FCC sends an official observer. Any measurement that can be made for the FCC in conjunction with NTIA's planned measurements are then undertaken.

QUESTION:

NTIA's budget does not request funds for Public Telecommunications Facilities, planning and construction in FY 1988 because 95 percent of the U. S. currently receives public broadcast programming. The budget states on page 3 that through FY 1986 the program had awarded $305 million in grants.

a. If the Congress allows the program to be terminated, what alternatives are available to the 5 percent of the U. S. population who cannot receive public broadcast service?

b. Please provide a schedule listing the areas of the United States that do not receive public broadcasting. The schedule should list the counties and populations in each state not being served at present.

c. Will any currently funded or planned public broadcasting stations be adversely affected by termination of the program?

d. Please list the number of applications on file for FY 1987, their purposes and amounts requested.

e. Assuming that Congress will reject the pending rescission proposal, will all current applications be funded with FY 1987 funds? If not, please list those that will not be funded.

f. In past years this program had 15 full-time staff members. Please provide for the record a listing of the staff positions and grades currently allotted for the program, indicate whether they are currently filled and when they are proposed to be cut. Will any employees that are to be eliminated be given positions elsewhere in NTIA or the Commerce Department?

ANSWER:

The areas where public broadcasting is not available are primarily in sparsely populated rural regions. Such areas are usually unable financially to support a local public broadcasting station. Cable systems have been bringing public television service into rural areas cost effectively and low cost translators are another possibility for bringing in public radio service. In a few major population centers, public radio service is not available because of technical problems and the FCC's historical allocation of channels for public radio use. There is little which can be done in the face of these technical obstacles. Most of these areas, however, do receive public television service.

The Department presently does not have a listing of unserved areas which is as specific as requested. In 1982, NTIA conducted a very detailed study of public broadcasting service. It included computer generated data bases which plotted the coverage of each public broadcasting station against 1970 census data. NTIA has not updated that information with 1980 census data because of the cost of the staff and computer time and the lengthy process which is involved. For example, the FCC no longer compiles certain information on public broadcasting translators. A substantial investment in staff time and resources would be necessary to develop the information previously available from the FCC to produce the detailed listings you have described.

The 1982 study indicated that 95% of the population was receiving public broadcasting service. Since then, projects funded by PTFP alone have added additional population coverage, bringing service to at least 97% of the population. There have also been increases in coverage from additional cable systems which NTIA has not tracked. Because the remaining unserved population is mostly in sparsely populated rural areas, and is a small percentage of the total population, NTIA has not proposed to engage in the expensive project of updating the information.

All grant commitments already made by the Department of Commerce will be honored to their completion when the PTFP is eliminated. No currently funded projects will be curtailed. The Administration believes that the need to reduce Federal deficits is an overriding concern and that cuts must be taken in many programs including PTFP. The effect of PTFP termination on planned public broadcasting stations is something the Department cannot predict with any accuracy. There are many applicants to PTFP every year who propose to establish new stations, but whose applications to the FCC are delayed or refused on technical grounds or because others are competing for the same frequency. In those cases, PTFP would not be able to fund the project until the FCC permits were available, so PTFP funding is not the problem preventing the

station from being established. The Department cannot tell whether those projects which receive FCC permits would be able to raise funds from other sources if PTFP were eliminated, but it is probable that some projects would be able to without PTFP.

The deadline for 1987 grant applications was March 17, 1987 and 337 applications were received. The total of requested funds will not be available for several weeks because of the failure of more than 80 of the applicants to enter complete financial data. NTIA will provide the financial information to the Committee as soon as it is available. The number of applications Accepted for Filing, the total funds requested, and the Grant Awards made for each year since 1984 are listed below, along with the specifics of 1987 applications at present.

PUBLIC TELECOMMUNICATIONS FACILITIES PROGRAM
APPLICATIONS ACCEPTED FOR FILING

1984			
291	Applications Accepted	$65.82 M	Funds Requested
94	Grants Awarded	$11.88 M	Total Awarded
1985			
377	Applications Accepted	$110 M	Funds Requested
144	Grants Awarded	$ 22.8 M	Total Awarded
1986			
328	Applications Accepted	$ 90 M	Funds Requested
145	Grants Awarded	$ 23.3 M	Total Awarded
1987	(Application Deadline March 17, 1987)		
337	Applications Submitted		

PTFP will be making grant award decisions in late summer of 1987. The applications expected by March 17, 1987 will be carefully reviewed and the best proposals will receive funding. It is impossible to say at this time which proposals will be funded and which remain unfunded. In recent years, PTFP has been able to fund all the applications for establishing new stations which have met the criteria listed in PTFP's rules and which have been able to receive FCC permits. In addition, PTFP has funded many urgent replacement requests from essential public broadcasting stations.

For FY 1987, there are 15 positions allocated within NTIA for PTFP. In addition, the Department of Commerce has centralized its financial assistance operations and charges three grants administration personnel within the Office of Finance and Federal Assistance to the PTFP budget through the Working Capital Fund. No plans are in place to reduce any of these employees in this fiscal year. They would be needed through the end of the year to terminate the activities of PTFP, when the program is abolished.

The following chart depicts the positions assigned to PTFP:

Title	# Positions	Grade
Associate Administrator/Director	1	SES
Program Officers	6	13
Program Analyst	1	12
Attorney	1	11
Telecommunications Policy Analyst	1	14
Telecommunications Policy Analyst	1	13
Expert Engineer	1	14
Secretary	1	8
Clerk-Typist (one vacant)	2	4
Dept. Commerce Grants Admin.	3	11
GRAND TOTAL	18	

QUESTION:

On page 27 the NTIA budget highlights the "China Protocol" in which the U.S. and the Peoples Republic of China are committed to a 5 year program of technical cooperation.

a. Is NTIA staffed to adequately manage the China Protocol? Which NTIA office will handle this? Will staff be added or reassigned to carry out the program?

b. Please provide breakdown of the expenditures within the $1.3 million Federal Government commitment. Is the funding totally from the Commerce Department or are other agencies involved?

c. Which private industries are contributing to this program and in what form are their contribution? List the amounts or services involved.

d. What ultimate benefits will be attained from the China Protocol? Is the goal of the program an exchange of scientific knowledge or the promotion of trade and commerce between the U.S. and the Peoples Republic of China? Please explain.

e. An increase of $225,000 is requested for the "Spectrum Plans and Policies" activity, which equals NTIA's share of the China Protocol initiative. The budget justification shows the Federal contribution for FY 1987 as $260,000. Why doesn't NTIA's overall request reflect the decrease in 1988 rather than an increase? What accounts for the increase of $225,000?

ANSWER:

Yes, NTIA is adequately staffed to handle the China Protocol. An expert was hired to handle the initial phases of the protocol tasks, including organizing and directing the industry team on its trip to China last November. This expert is also charged with preparing the report of that trip. The services of the National Council for U.S./China Trade (NCUSCT) are planned to be retained to

assist NTIA in organizing and conducting the return visit of the Chinese experts to the U.S. in the July/August 1987 timeframe. The Assistant Secretary for Communications and Information has the final decision for all personnel brought on board for the China Protocol.

An object class breakout of the FY 1988 expenses is included on page 28 of the NTIA budget. The increase associated with 1989 through 1991 is the full year cost of the salaries lapsed in the FY 1988 budget. The funding will be solely within the Department of Commerce.

In the first phase of the protocol, eight telecommunications industry firms contributed to the program. They were AT&T International, Bell South, Pacific Telesis, Motorola, COMSAT, Hawaiian Telephone/GTE, Transcom Inc., and Essex/United Technologies. These eight companies provided the services of one of their professional staff to participate as a member of the team that made the trip to China. The costs to the companies were: salaries of the staff members; airfare to China; several trips to Washington, D.C., to plan the trip and later review the results; and ancillary home office support for each team member. In addition, the companies also provided funds to purchase gifts for various Chinese hosts and to provide U.S.-hosted banquets in China.

Later during this fiscal year, there will be a return visit by the Chinese. It is anticipated that at least some of the costs of this visit will be absorbed by the telecommunications industry, as in the earlier visit by the Chinese. NTIA expects that other companies in addition to/or in place of those listed above will participate in this next phase of the protocol.

The Chinese should benefit from the Protocol through acquisition of scientific and technical advice on ways and means to improve their telecommunications infrastructure. This advice will address management techniques, telecommunications equipment technology, application of computer techniques and software to improved operations, revenue improvement techniques, and guidance on more effective financing strategies.

The U.S. trade promotion agencies and U.S. companies should benefit through a better understanding of the Chinese telecommunications structure and supporting industry. From this, it is anticipated that we will be able to target, more effectively, opportunities for promotion of U.S. industry trade prospects. It is also clear that improved contacts and relationships are resulting from the Protocol.

The $260,000 Federal contribution for FY 1987 is a one-time transfer of funds, not an increase to our base program. The $225,000 would increase our base program for FY 1988 through FY 1991. In FY 1992, after the Protocol's completion, NTIA's budget request will reflect a decrease for monies associated with the Protocol.

QUESTION:

On page 15 of the NTIA budget estimates, it is stated that "in large measure" the oversight of COMSAT's participation in INTELSAT is delegated to the Department of Commerce (DOC). Yet the Department of State instructs COMSAT on issues important to Government interests. The FCC also spends considerable resources monitoring COMSAT and contributing to the U.S. Government instructions to COMSAT.

a. Please identify and clearly explain the procedures, mechanisms and/or agreements among U.S. Government agencies to formulate instructions to COMSAT.

b. Do NTIA/DOC and FCC representatives acknowledge the leadership and/or authority assumed by the Department of State for the instruction of COMSAT.

c. Does NTIA/DOC have any proposals for the Congress aimed at reducing the resources devoted to monitoring the activities of COMSAT and INTELSAT. If not, is the present arrangement the most efficient and effective means of accomplishing the task? How can the process be made more efficient?

d. Would better oversight of INTELSAT, through more effective U.S. Government monitoring and instruction of COMSAT, have helped prevent the apparent scandal and leadership crisis now occurring at INTELSAT? What U.S. Government interests have been damaged by the recent troubles at INTELSAT? Who should take responsibility for this damage?

ANSWER:

A 1985 Memorandum of Understanding (MOU) between Comsat and NTIA, the State Department, and the FCC sets out the general procedures under which instructions to Comsat are issued. The instructional process is a collaborative exercise in which Comsat and the U.S. Government engage in a thorough exchange of views, after which binding instructions are issued in areas where governmental guidance is required.

While an ongoing exercise, the instructional process begins in earnest several weeks before an INTELSAT or INMARSAT meeting. Comsat prepares a memorandum of anticipated actions and meets with the U.S. Government for a preliminary discussion of issues. Often even before this meeting, staff from the three agencies meet to discuss what instructions to issue.

The actual formulation of instructions begins with a division of work load among the agencies. An individual staff member or group within a single agency often volunteers to draft an instruction, after which the two other agencies receive copies for comments and proposed revisions. Before each instruction is finalized, each agency has reviewed and approved the language. The State Department manages the formal transmittal of instructions, but the agencies normally again meet with Comsat to discuss the nature and purpose of the instructions. Because the instructional process is

prospective and one cannot anticipate every turn of future events, this discussion is essential to apprise Comsat of what concerns the U.S. Government has and what efforts and interventions are expected of the U.S. Signatory. Less formal exchanges of views that occur during the meeting between the government observers and Comsat amplify and bolster the written instructions and allow for modifications as events warrant.

The instructional process is a collaborative exercise that employs the respective expertise of the agencies involved. The State Department's foreign relations expertise and the telecommunications policy expertise and concerns of NTIA and the FCC are all taken into account. Specific issues often will require that a particular agency take the lead in developing the U.S. policy. This serves to maximize the application of agency expertise, but staff from each agency must still coordinate views and cooperate in the formulation of U.S. policies and instructions to Comsat. As such, no single agency can claim leadership or supremacy throughout the overall process.

Efforts by the Executive branch and the FCC to foster international telecommunications competition and service diversity have created the need to monitor closely the activities of Comsat and INTELSAT. We hope that in the longer term, marketplace competition will be more effective. To reach that goal, however, the U.S. Government and the U.S. Signatory must effectively advocate procompetitive initiatives like the separate systems policy. Heightened attention to the instructional process and how INTELSAT responds to procompetitive initiatives should accrue benefits to telecommunications users throughout the world. The three agencies primarily involved are currently reviewing revisions to those parts of the Memorandum of Understanding which outline the instructional process and the means by which the general public can receive information and participate in the process. Revisions to the MOU should promote greater efficiency and responsiveness by the U.S. Signatory.

It is unlikely that more intensive U.S. monitoring and instruction of Comsat would have helped prevent the current financial improprieties within INTELSAT. The instructional process has not delved into financial accounting and line item auditing. Even the FCC's review of Comsat applications to invest in new INTELSAT facilities does not involve in-depth scrutiny of actual budgetary levels. Comsat has stated that it too had no information of the improprieties.

The fact that the INTELSAT Board of Governors also lacked the tools to forestall such action does warrant a thorough review and remedy. The Board, acting as a company board of directors, should take responsibility for the damage and likewise should effect a cure. Assuring U.S. citizens the opportunity to lead the organization could have suffered if the members of INTELSAT perceived U.S. citizenship of the former Director General somehow as a contributing factor in the alleged defrauding of the organization. However, the Board's favorable appointment of the U.S. candidate, Dean Burch, indicates that the organization is not blaming the U.S. for the recent troubles.

QUESTION:

The budget estimates call for a $500,000 (or 41 percent) increase in spending for the "International Policies" activity as noted on page 18 of the estimates. Can you provide greater explanation and rationale for the increase?

a. Why is a $251,740 increase needed for salaries when the staffing level remains the same from 1987 to 1988?

b. What constitutes the $142,984 increase for "other services" in the breakdown on page 19? What is the total proposed for this category?

c. If spending on the "International Policies" activity has been at this level in prior years, please explain what carryover funding was used for it in the current and prior fiscal years?

d. Why aren't carryover funds to be available in FY88 for this activity? Were such funds properly used for these activities?

ANSWER:

A major portion of the requested increase for international policies is needed for salaries and benefits to fund personnel hired by using carryover funds. The staffing level does not reflect an increase because NTIA is still within its total personnel ceiling, largely because of underutilization of the positions established for the reimbursable program.

The $142,984 increase for "other services" shown on page 19 of NTIA's budget includes:

Salaries	$100,000
Benefits	16,000
Accounting Charges	7,000
Departmental Charges	20,000
Total	$143,000

The total amount proposed for other services in FY 1988 is $1,465,000. This includes funds for:

Salaries & Benefits	$ 116,000
Training	26,000
Accounting Charges	200,000
Interagency Payments	320,000
Departmental Charges	460,000
Maintenance	105,000
GSA Services	35,000
Other	203,000*
Total	$1,465,000

* (Includes Departmental Reimbursable Accounts, Frequency Management Advisory Council costs, services from the National Council for U.S./China Trade and other procurements)

Most of the international carryover occurred in FY 1982. In an effort to ensure the most effective use of Federal funds, a feasibility study was performed prior to awarding a major contract. Based upon the study the contract was not awarded and the funds were held until the direction of the international program was determined. The program direction was firmly established by FY 1985, when most of the carryover available within the international policies program was used. Report language in the FY 1986 Conference Report, H.R. 2965, allowed additional FY 1985 carryover funds to be transferred to the international program. However, in FY 1986 the program actually reduced spending due to delays in replacing staff members and as a result of several administrative reductions which were implemented internally during August and September. These reductions were designed to ensure adequate funds would be available to meet FY 1987 program requirements. Based upon actual program obligations as of February 28, 1987, the most recent estimate of program needs for FY 1987 is approximately $1.5 million. This will require the use of roughly $350,000 in carryover. NTIA closely monitors the international program spending and, if it is necessary, a formal reprogramming request will be submitted.

Carryover funds from prior years have been exhausted and, with the appropriated level in FY 1987, NTIA anticipates no carryover funds to be available for use in FY 1988. The carryover funds available for use in FY 1987 resulted primarily from the internal reductions discussed above (44%) and the liquidation of prior year obligations (24%).

National Technical Information Service

QUESTION:

The budget estimates for the Economic and Statistical Analysis (ESA) programs, which include the National Technical Information Service (NTIS), state on page ESA-2 that the Administration wishes to "privatize" the entire NTIS operation.

No details are given on the Department of Commerce's plan for contracting out the operation. Please explain the procedure expected to be followed to make this transition, including: planned dates of the request for private sector proposals and decision on them, the Government's financial expectations, the term of a proposed contract, and the expected disposition of Government employees and property.

ANSWER:

The decision to attempt tc "privatize" the National Technical Information Service (NTIS) is in line with the Administration's overall goal to have the private sector carry out those activities for which it is best suited. Since the collection and dissemination of technical information are activities carried by numerous private sector firms, NTIS is a natural choice, among Federal programs, for a sustained review of privatization options.

The Department of Commerce is currently reviewing several such options. One is going to the private sector to see how much interest there is in administering the NTIS function. Another option is fairly innovative -- an employee-owned company.

Before any decision on what approach to take, there are a number of issues that must be disposed of. These include:

- o Continued availability of Government agencies' materials;
- o Disposition of deposit accounts;
- o Assurance of minimum adverse effects on current NTIS employees;
- o Impact, if any, on current international agreements;
- o Mechanism for contract oversight; and
- o Copyright treatment of Government publications.

The Administration recognizes that these and other issues involve beneficial aspects of the current NTIS operation which ought to be preserved in the transition to private operation. For example, one of the prime attractions of the current operation is that many Federal agencies are willing to supply their publications. The conversion to private operation should be structured so as to preserve this cooperation. A staff working group has been established to review these issues and identify the most appropriate approach.

QUESTION:

Please provide, for the record, the Department's latest studies and analyses justifying the transfer of this function to the private sector.

ANSWER:

The Department of Commerce's study of privatization options and an account of our experience with contracting out specific NTIS activities pursuant to Office of Management and Budget (OMB) Circular A-76 are attached. (Note: Information in Subcommittee files.)

QUESTION:

The budget estimates, on page ESA-28, state that NTIS' Patent Licensing Program is expected to collect over $3 million in excess revenues for return to the Treasury in the current and future fiscal years.

What are the Department's projections for such revenue when the operation is contracted out?

ANSWER:

Pursuant to Public Law 96-480 as amended by Public Law 99-502, receipts in excess of program cost for the NTIS licensing program will, beginning in FY 1987, be returned to the Federal agency which originated the invention, not the U.S. Treasury.

We do not have a projection for such revenues once the operation is turned over to the private sector. The revenue flow will depend on the overall privatization approach chosen; on the specific arrangements between Federal agencies that require licensing services and the new organization; and on the potential commercial value of the patents available for licensing.

With the same inventory of patents, we would expect at least as much revenue under a private operation as under the current scheme. A private enterprise with strong marketing capabilities may be able to maximize revenues in ways a Federal operation cannot.

QUESTION:

What will be the expected net revenues to the U.S. Treasury? Please provide this information for the overall NTIS program as well.

ANSWER:

Starting in FY 1987, revenues for licensing services will be returned to the appropriate Federal agencies, not the U.S. Treasury.

We will not have estimates for the overall NTIS program until we know more about the way privatization will take place.

QUESTION:

As shown on page ESA-31, NTIS presently appears to be almost entirely self-supporting from fees and sales receipts, not from appropriations.

What then is the financial advantage to the Government if the NTIS operation is contracted to the private sector?

ANSWER:

The analyses to date do not indicate any financial advantage to the Government. Nevertheless, raising revenue was not one of principal rationales for the decision to privatize NTIS. The overall goal was a more fundamental one of ensuring that the Federal Government does not retain unnecessarily, activities that are better suited to private operation. The long-term benefits of a proper division of effort between the Federal and private sectors should outweigh any immediate finanical impact on the Federal Government.

QUESTION:

By contracting out, will the Government lose direct control over valuable technical information it has generated? What safeguards and controls will prevent a private sector contractor from allowing such information to be used by foreign governments and/or entities to the disadvantage of U.S. industry and trade?

What will become of the 344 career Government employees now at NTIS when their function is transferred to the private sector? Will they be guaranteed jobs in the private sector or be RIFed? How will their salaries and benefits change?

ANSWER:

These questions raise issues that the staff working group will address. We will keep the Committee advised of its progress.

We can say at this point that protecting national interests and minimizing adverse impact on current employees are among the major considerations in evaluating possible privatization approaches. Our overall goal is to preserve the principal benefits of the current NTIS operation while encouraging greater private sector involvement.

QUESTION:

If the NTIS function is privatized, what Department office will be responsible for the monitoring and oversight of the contractor's patent licensing program and the information clearinghouse program?

Please estimate the staff and other resources involved in oversight of a private contractor and compare this to the oversight of the Government-run program. Include in the these figures the Department's administrative staff involved with contracts, monitoring of finances, and audits or evaluations.

ANSWER:

These are issues that the working group will attempt to resolve.

It has been decided, however, that, whatever the privatization approach adopted, the Government will retain overall policy control and direction of the NTIS operation.

QUESTION:

The table on page ESA-30, summarizing NTIS workload and performance, shows a significant decline between the 1985 actual and the 1988 estimate for the number of documents distributed to developing countries.

Please explain the reason for this decline. Has the Department deemphasized its outreach to such countries? If so, why?

What is the goal of such outreach?

Is such document distribution done in coordination with the Department of State and other appropriate agencies? Please explain the nature of this coordination.

ANSWER:

The decline in sales to developing countries does not reflect any deemphasis by the Department of these countries. Rather, it reflects greatly diminished resources available to support that

outreach. From 1976 to 1986 NTIS had a Participating Agency Service Agreement (PASA) with the Agency for International Development's (AID) Latin America Bureau, and from 1984 to 1987 we have had one with AID's Near East Bureau. AID has informed NTIS that they intend to withdraw reimbursable contract support to NTIS for products and services provided to developing countries. Without this support, NTIS does not have the resources to continue the efforts of the past decade.

NTIS continues to support a concerted outreach to friendly developing countries, based on the declared foreign policy promoting social and economic development worldwide.

United States Travel and Tourism Administration

QUESTION:

After 6 years of trying to eliminate or curtail the United States Travel and Tourism Administration, the White House now supports USTTA, except they want the traveling public to pay for it.

Now that we have a positive outlook on USTTA by the Administration--Mrs. Tuttle, please tell us your plans to promote tourism to the United States?

ANSWER:

The user fee proposed in the President's budget would be assessed against the tourism industry, not the travelling public because industry is principal beneficiary of USTTA services. The fees will support USTTA's activities that encourage increased international tourism by:

1. Providing research data which describes major foreign markets, including detailed traveler and trip information;

2. Using the research to develop cooperative advertising programs in 9 countries;

3. Leveraging USTTA funds along with industry's, states', and cities' for promotional programs abroad (target funding ratio is 4 industry dollars to 1 USTTA dollar.)

4. Holding regional conferences through the U.S. to educate states, cities and the industry about the foreign travel market and develop regional marketing plans.

QUESTION:

How many foreign tourists came to the United States in 1986 and what are the projections for 1987 and 1988?

ANSWER:

Foreign visitors to the United States are as follows:

Year	Arrivals (Million)	% Change
1986	22.0	+5
1987(p)	22.8	+4
1988(p)	23.6	+4

(p)-projected

QUESTION:

Can't you take credit for motivating more than 32,000 visitors through your cooperative advertising partners?

ANSWER:

The advertising research assessing the impact of the cooperative advertising concentrated only on the USTTA portion of the advertising--through surveys of consumers returning coupons in response to our ads. Because of the logistical limitations we did not attempt to evaluate the overall impact of the entire promotions, which would include the impact of the numerous cooperative partners' ads. Obviously the aggregate promotional influence of the cooperative advertising supplements greatly surpassed that associated only with USTTA's portion, and the promotions themselves would not have taken place without the initiative of the agency.

QUESTION:

Why does USTTA project more visitors but lower visitor expenditures in 1988 due to the cooperative advertising campaign? Are we aiming for lower income visitors?

ANSWER:

USTTA estimates that the cooperative ad campaigns will generate 15,500 visitors and $23.7 million in 1986, 13,850 visitors and $21.8 million in 1987 and 14,400 visitors and $23.4 million in 1988. This reflects an increasing expenditure per visitor over that period.

QUESTION:

Does not the drop in the value of the dollar make this a good time to expand your activities?

ANSWER:

The drop in the value of the dollar creates a more favorable marketing environment by effectively making the USA more affordable as an international destination; so, this presents an excellent promotional opportunity. On the other hand, the decline

in the dollar also detrimentally affects our foreign operations because our real costs of maintaining offices and carrying out our promotional marketing programs increase proportionally.

QUESTION:

Where are USTTA's 9 regional offices overseas?

ANSWER:

USTTA has nine regional offices and an International Congress Office located in England, the Netherlands, France, France (ICO), Italy, Germany, Canada (Montreal, Quebec, Vancouver), Mexico, Japan and Australia.

QUESTION:

Are the 14 special market programs operated out of these regional offices or do you establish additional offices in the 14 special market countries?

ANSWER:

Our 14 special market programs are directed and supervised by the regional office directors and conducted by the Foreign Commercial Service Officer on duty in the country in question. However, the ultimate goal for these markets is to establish operations similar to that existing in Belgium, where an information office staffed by contract personnel is operated with funds provided by the Visit USA Committee.

QUESTION:

Where else, both foreign and domestic, does USTTA maintain offices?

ANSWER:

Nowhere.

QUESTION:

Are there any plans to establish any additional offices in the United States or overseas?

ANSWER:

USTTA is looking into the feasibility of opening an office in Miami to serve the South American markets.

QUESTION:

Please list your permanent employees by office location as of February 28, 1987 and February 28, 1986. How does your current ratio of Washington to field employment compare to 3 years ago?

ANSWER:

February 28, 1987	February 28, 1986
Office of the Under Secretary	
Donna Tuttle	Donna Tuttle
Gladys Hook	Gladys Hook
Lynn Hayes	Vivian Deuschl
Roger Whyte	Roger Whyte
Elaine Braun	Barbara Berghausen
Karen Cardran	Karen Cardran
Lori Sheridan	Danielle Jennings
Eugene Atkinson	Eugene Atkinson
Office of the Assistant Secretary	
Richard Seely	Richard Seely
Leslie Lautenslager	Dianne Peterson
Karl Kuhn	Karl Kuhn
Henry Riegner	Henry Riegner
Lee J. Wells	Lee J. Wells
Carol Kelsey	Carol Kelsey
Eldon MacEachern	Eldon MacEachern
Clarissa Watson	Idaline Price
Office of Policy and Planning	
David Edgell	David Edgell
Jean O'Brien	Jean O'Brien
Cynthia Phillips	Cynthia Phillips
Laurence Gaffney	Laurence Gaffney
Office of Research	
W. Donald Wynegar	W. Donald Wynegar
Marsha Iyomasa	Marsha Iyomasa
Alma Hall	Alma Hall
Harvey Shields	Paul G. Hall
Carolyn Baker	
Office of Management and Administration	
Jerry Manolatos	Jerry Manolatos
Marion A. Carter	Marion A. Carter
Andrea Furrow	Andrea Furrow
Paula D. Ayers	Paula D. Ayers

February 28, 1987	February 28, 1986
Paris, France	
William Tappe	William Tappe
Carol Rudman	Carol Rudman
Leonor Fry	Leonor Fry
Claude Dejols	Claude Dejols
Catherine De Nesle	Catherine De Nesle
Isabelle Ferre	Isabelle Ferre
Marie Claire Cothenet	Marie Claire Cothenet
Paris, France-International Congress Office	
Edward Shedlick	Edward Shedlick
Micheline Nubiola	Micheline Nubiola
Christine Desai	Christine Desai
Frankfurt, Germany	
Peter Bohen	Peter Bohen
Gert Lindenau	Gert Lindenau
Weiner Utikal	Weiner Utikal
Rita Hille	Rita Hille
Janette Howland	Janette Howland
Regina Navarez-Bopp	Regina Navarez-Bopp
Andrea F. Lehner	Andrea F. Lehner
London, England	
Vito Passemante	Vito Passemante
H. Sherman Briscoe	H. Sherman Briscoe
Doreen Willis Bailey	Doreen Willis Bailey
Elizabeth J. Pavey	Elizabeth J. Pavey
Dawn Campbell	Beverly Collier
Beverly Collier	Jacqueline Gibson
Jacqueline Gibson	Lesley Freshwater
Toronto, Canada	
William H. Tolson	William H. Tolson
Jack Richardson	Jack Richardson
Edward Eric Dixson	Andrea Logan
Andrea Logan	Doreen Munro
Doreen Munro	Deborah Pritchard
Deborah Pritchard	Linda Presley
Linda Presley	

Mexico City, Mexico

Richard Blom	Richard Blom
Louis Santamaria	A. Gail Del Rosal
A. Gail Del Rosal	Virginia Blanco
Virginia Blanco	Alfonso Navarro
Alfonso Navarro	Laura Riveroll
Laura Riveroll	Emma De Espinosa
Ofelia Jaimes	

Tokyo, Japan

Fritz Schmitz	Fritz Schmitz
Sandra Gamo	Sandra Gamo
Mumiko Naito	Mumiko Naito
Ikuko Ikeda	Ikuko Ikeda
Chrisato Nakagawa	Chrisato Nakagawa
Nagayeski Ibara	Nagayeski Ibara

Sydney, Australia

Thomas Quinn	Thomas Quinn
Alexander Listo	Alexander Listo

Amsterdam, The Netherlands

Margaret Corkery	Margaret Corkery
Adriana Slingerland	Adriana Slingerland

Milan, Italy

Carol Ross	Carol Ross
Simonetta Busnelli	Sylvia Rossi

Washington to field ratio:	1987	1986	1985
	37%	36%	36%

QUESTION:

We hear that there are plans to close the Amsterdam Office. We just opened that office a little more than a year ago. When the staff was there early in 1986, the USTTA person was full of enthusiasm, but was mainly concerned that our consulate in Amsterdam would be closed. State has no plans to close Amsterdam before at least 1989, does USTTA plan to close its operations in Amsterdam?

ANSWER:

No.

QUESTION:

Do you agree that before any new offices are opened, or existing offices closed, that the committee will be notified pursuant to the requirements of Section 607, or similar section of the Department's Appropriation Act?

ANSWER:

Yes.

International Ticket Writing Charge

QUESTION:

The Administration is proposing an International Ticket Writing Charge of $1.00 per ticket for international travel to and from the United States to be assessed on airlines and cruise ship carriers. Travel originating in Canada, Mexico, the U.S. possessions and territories, and adjacent islands is excluded.

Am I correct that the $1.00 would be assessed on tickets written in the U.S., so that American businessmen and tourists would generally not be charged this fee?

ANSWER:

Tickets written in the U.S. could be charged. The charge is based on point of origin, not ticket writing location. The fee proposal does not discriminate on the basis of nationality. In any event it is up to the carriers whether or not to pass the charge onto the passengers.

QUESTION:

How will the fee be collected?

ANSWER:

We are proposing that the Commerce/USTTA set up an account with a financial institution or bank to act as the collecting agent. Airlines, and cruise ship carriers both foreign and American would make quarterly deposits thirty days after the end of each quarter into the USTTA account. Arrangements will be made for standard and electronic fund transfers which would allow the airlines and passenger ship carriers to make deposits regardless of their location.

QUESTION:

How will you collect this fee from foreign airlines and cruise ship operators?

ANSWER:

In the same manner as described above.

QUESTION:

What is the total amount of fees expected to be collected in fiscal 1988 and for the next five years thereafter?

ANSWER:

USTTA estimates that in FY 1988 approximately $18 million will be due in fees. From FY 1989 on approximately $25 million will be collected.

QUESTION:

The fee is not collected from travelers from islands adjacent to U.S. possessions and territories. What islands do you specifically have in mind as this sounds like another CBI program?

ANSWER:

In determining who to exempt from the fee, USTTA is planning to follow the same procedures and criteria as the Customs and Immigration Service. In addition to travel to and from Canada, Mexico, U.S. territories and possessions, exempt would be Saint Pierre, Miquelon, Cuba, the Dominican Republic, Haiti, Bermuda, the Bahamas, Barbados, Jamaica, the Winward and Leeward Islands, Trinidad, Martinique and other British, French and Netherlands territories or possessions in or bordering on the Caribbean Sea.

Travel originating from the mainland United States would also be exempted if the journey was limited to Canada, Mexico, territories and possessions of the United States, or any island mentioned above. Also exempted would be any passenger in transit to a destination outside the Customs territory of the United States.

QUESTION:

What is the status of the fee legislation?

ANSWER:

Draft legislation is currently under review within the Administration. It will be forwarded to Congress shortly.

QUESTION:

USTTA has requested $3,000,000 for the first quarter for startup and transition to the new funding system. What date was projected for approval of the fee legislation?

ANSWER:

USTTA hopes for ~~an early~~ passage, but estimates are based on Congressional approval no later than September 30, 1987, issuance of regulations shortly thereafter, with fees to be first collected January 1988.

QUESTION:

Did you consult with the Tourism Policy Council before proposing the fee? If no, what good is it to have an advisory group if you didn't get its advice before acting?

ANSWER:

No, we did not consult with the Tourism Policy Council as the fee proposal advanced. This proposal was developed in consultation with OMB and the Department of Commerce. As the Administration's budget is considered confidential information prior to submission to the Congress, we did not consider the open forum of the Tourism Policy Council an appropriate vehicle for discussing this proposal. Following submission of the budget to the Congress, we included this issue on the March 3rd agenda of the Tourism Policy Council.

USTTA Caribbean Activities

QUESTION:

Last year the Committee learned that the Travel Service had joined the Caribbean Basin Initiative and was going to help CBI nations attract U.S. tourists. We didn't think that the limited funds for tourism should be so diverted. We added language to make it clear that the appropriation was only to be used for promotion of travel to the United States and its possessions.

I note that the language we added is in the budget for 1988. Does that indicate that the USTTA has abandoned the CBI project?

ANSWER:

USTTA funds have always been used for the promotion of travel to the U.S. and its possessions. USTTA has never used its funds to promote travel to the Nations of the CBI. USTTA completed its review of tourism development in the Caribbean and turned over its recommendations to the CBI Task Force. The language in the budget for FY 1988 is standard language.

QUESTION:

What activities does USTTA presently have or plan for the Caribbean?

ANSWER:

None of the recommendations of the USTTA Carribean study require further action by USTTA. We will continue to actively promote travel to Puerto Rico and the Virgin Islands.

Contribution of Eugene W. Atkinson

QUESTION:

Mr. Eugene W. Atkinson, who was once a democratic Member of Congress, and then became an unsuccessful republican candidate was appointed to the United States Travel and Tourism Administration on October 17, 1983. We understand that Mr. Atkinson is a GS-15 International Tourism Relations Officer at an annual salary of $69,976.00.

Mr. Atkinson's last biographical sketch that he published in the Congressional Directory states that he operated an insurance agency and does not mention any background in tourism. Why was he appointed and just what does he do at USTTA?

ANSWER:

Mr. Atkinson was appointed in October 1983 prior to my arrival at USTTA. His duties as an International Tourism Relations Officer include assisting in coordination and liaison with USTTA policy matters, providing technical assistance in the management and coordination of USTTA familiarization tours, assist in the activities of the Tourism Policy Council, and acting as liaison with the Congress and numerous regional marketing conferences. As to Mr. Atkinson's background in tourism, he did serve with the Customs Service for a number of years, was a government coordinator for all international arrival agencies with the Pittsburgh Chamber of Commerce and has done post graduate work in the area of international marketing.

QUESTION:

The Administration is proposing a $1 user fee on international travelers to finance USTTA. It is my understanding this will generate approximately $18 to $20 million annually and that USTTA for the past several years has received an annual appropriation of $12 million.

Are you recommending an increase for USTTA's budget?

ANSWER:

No.

QUESTION:

If not, does the surplus revenue go into a trust fund or into the general treasury.

ANSWER:

Initially, all collections are put into the USTTA account at the Department of Commerce. At least once annually, collections in excess of the amount Congress has approved to support USTTA activities will be transferred to the general treasury account.

QUESTION:

If the surplus goes into the general treasury, then isn't this user fee a tax.

ANSWER:

No. The surplus is simply excess collections above what Congress has approved USTTA to spend. At the request of the airline and cruise line industry to lessen the administrative burden, whole dollar amounts were chosen as well as the use of the Customs Passenger criteria.

QUESTION:

Are you aware of the current taxes and user fees collected from the passengers arriving and departing the U.S.?

If not, please let me tell you:

-$3 Departure tax
-$5 Customs user fee
-$5 Immigration user fee
- And we understand the Agriculture Department is proposing a $3 user fee.

ANSWER:

Yes.

QUESTION:

How can we continue to promote tourism and keep a favorable tourism trade balance if we continue to tax the international traveller?

ANSWER:

The best way to foster travel and tourism is for the United States to have viable support systems in operation that can provide rapid, high quality customs and immigration services as well as the other necessary travel and tourism-related services that promote travel to the United States.

QUESTION:

The rationale for user fees has typically been that users reimburse the government for a special service.

- Do you believe that the airlines and the cruise vessels are requiring such a special service? (Why do you not require hotels, resorts, U.S. national parks and others to pay a USTTA user fee?)

ANSWER:

Airlines, and cruise ships are the principal beneficiaries of USTTA services. It would be very difficult and administratively burdensome for USTTA to manage or enforce fees covering the entire industry.

QUESTION:

Have you discussed your proposal with the airlines to get their experience on collecting Customs and INS user fees before you submit your legislation to the Congress?

ANSWER:

Yes, in fact USTTA did have extensive discussions with the industry and the Customs and Immigration Service on their experience collecting their fees. Their advice was taken into account in order to avoid pitfalls and ease the administrative and recordkeeping burden on the airlines and passenger ship carriers.

QUESTION:

Customs and INS user fees are intended only for a fixed period. So to with the USTTA fee?

ANSWER:

No, the fee is intended as a permanent means of funding USTTA.

QUESTION:

Where do these taxes disguised as user fees stop? Does the Administration intend to charge a fee to file income tax return?

ANSWER:

USTTA is in the business of promoting travel to the U.S. The question would be better directed to the Internal Revenue Service.

Questions Submitted by Senator Bumpers

National Telecommunications and Information Administration

QUESTION:

Does the Commerce Department maintain statistics on the extent to which public broadcast signals -- both radio and television-- reach households in the United States? What percentage of households in the United States receive a broadcast public television signal? And what percentage of television households receive public radio signals? What percentage of U.S. territory in the 48 continental states receive public television signals? What percentage of such territory receives public radio signals? How many people in the United States do not reach broadcast public radio and television signals, respectively?

What are the Commerce Department's recommendations for reaching presently unserved areas?

ANSWER:

In 1982, NTIA did a detailed study of public television and radio availability. That study showed that 95% of the U. S. population had access to public broadcasting service. Since that study, NTIA has updated the population estimates as new stations were added, and current coverage for radio and television combined is estimated at 97% of the total U. S. population.

The separate percentages for TV and radio coverage are each less than the combined 97%, because some areas have TV service, but not radio and others have radio service but not TV. It is estimated that public TV currently covers 95% of the population and public radio reaches more than 80%. Radio projects now being completed are expected to increase the radio reach in the next year or two.

In 1982, a comparison of uncovered territory with census figures for that territory showed that the uncovered areas were mostly sparsely populated. It is estimated that only 3% of the population now inhabits the territory not covered by a public broadcasting signal. Some of the areas which are uncovered appear very large when represented on a map, but the low population density makes standard broadcast service to those vast areas impractical in many cases. In other cases, the area is uncovered because of technical problems associated with Federal Communications Commission (FCC) frequency allocations.

The Department of Commerce places all applications to serve unserved areas in its highest priority for funding from the Public Telecommunications Facilities Program (PTFP). If the applicant can show that the proposed service area is unserved and can obtain the FCC authorizations necessary to construct a station, that applicant will receive strong consideration for PTFP funding. Every year, however, many applications for new stations have difficulty obtaining permits from the FCC and cannot be funded by PTFP. The Department of Commerce is committed to assuring first priority consideration to all applications proposing to serve unserved areas.

QUESTION:

Why does the Administration keep trying to eliminate this program when we know that public radio and television stations desperately need this assistance just to stay in service?

ANSWER:

The Administration and NTIA have recommended termination of PTFP since 1981. The primary reasons are: (1) proposed cuts in public broadcasting are in line with cuts that have been proposed for a number of special Federal support projects in the face of the national deficit situation; (2) PTFP has assisted in bringing public broadcasting services to 97% of the population; (3) the Administration also feels that replacement of obsolete or worn-out equipment is not the role of the Federal government.

QUESTION:

Last year the NTIA proposed new rules for PTFP, calling for more local funds to match federal funds, but that change is not part of the authorization legislation provided by Congress. Does NTIA still plan to implement those rules despite the absence of authorization from Congress?

ANSWER:

The PTFP authorization legislation states: "...the Secretary shall make a grant to the applicant in an amount determined by the Secretary, except that such amount shall not exceed 75 percent of the amount determined by the Secretary to be the reasonable and necessary cost of such project." (47 U.S.C. Section 392 (b), emphasis added) A further section of the law states: "The Secretary shall establish such rules and regulations as may be necessary to carry out this subpart, including rules and regulations...relating to determining the amount of each grant...." (47 U.S.C. Section 392 (e)) This language allows NTIA to establish a policy which encourages applicants to propose as much in matching funds as they can make available toward the total project cost. For many years, the PTFP rules have stated that one of the criteria for funding was the level of matching funds proposed, and an assurance from the applicant that the proposed matching amount was all the applicant had available for the project. The Notice of Proposed Rulemaking issued in December 1986 by NTIA stated that in the future NTIA would place particular emphasis on this already existing part of the rules. The information published in December pointed out that this emphasis would particularly focus on applications for replacement of equipment at existing stations. With this policy, NTIA believes it will be possible for PTFP to fund an increased number of replacement applications. The policy was applied on an experimental basis in the 1986 grant round and the result was that $6 million was made available from projects where the match was less than 75%. That $6 million was then used to fund additional projects.

QUESTION:

I am concerned about reports of widespread droppings of public television stations by cable systems in the absence of rules mandating carriage. Last year, Alfred Sikes, Assistant Secretary of Commerce, was quoted in Broadcasting magazine saying that he believed cable systems should carry all local unduplicated public television stations. If that is the Department's position, what does the Department intend to do to prevent public television stations from being dropped, or what does it recommend Congress do?

ANSWER:

The National Telecommunications and Information Administration, which is headed by Assistant Secretary Sikes, filed comments with the Federal Communications Commission (FCC) in the proceeding on carriage of stations by cable systems in 1986. NTIA's position was as you outlined: that all local, non-duplicated public television stations within a market should be carried by each cable system in that market.

NTIA also recommended that the FCC institute a formal, continuing inquiry to monitor developments in the industry, issue annual reports, and make a determination at the end of three years whether additional must-carry rules were required. Finally, NTIA recommended that mandatory carriage rules tailored to an individual local market could be adopted in response to a demonstration of localized harm.

The FCC is the agency responsible for issuing rules in this matter and NTIA provides its advice and supporting analyses in the form of comments, as was done. The FCC, in adopting must-carry rules based in part on an "industry compromise," did in part address the concern we had raised that such stations needed protection. New rules regarding cable carriage of broadcast stations were issued by the FCC in 1986, but in December the FCC stayed them while reviewing petitions for reconsideration. Commission action is expected soon.

Economic Affairs

QUESTION:

Office of Productivity, Technology, and Innovation. Once again, the Administration is proposing to severely cripple the one program that best assists U.S. firms to take advantage of the myriad of technological advances that are made at federal laboratories. I'm speaking, of course, of OPTI. Last year, Congress and the President, with the passage of the Federal Technology Transfer Act of 1986, indicated its support for increasing -- not decreasing -- the role of the federal government in making technology developed in laboratories available for private commercial ventures.

How does the Commerce Department reconcile this obvious show of support for programs of this nature from Congress and the President with a budget request that cripples OPTI? With a trade deficit of around $170 billion per year, shouldn't we be expanding programs that allow U.S. firms to be more competitive through technological breakthroughs?

ANSWER:

I believe that the Department's responsibilities prescribed by the Federal Technology Transfer Act of 1986 can be adequately carried within the budget request for OPTI.

International Trade Administration

Export License User Fee

QUESTION:

Won't the proposed user fee for export licenses granted through the International Trade Administration amount to a $50 tax on U.S. firms seeking to export? Why not a $50 import license fee? Why not encourage U.S. firms to export, rather than providing seemingly ever-increasing bureaucratic hurdles to vault? How can we reduce the trade deficit by providing export disincentives for small businesses?

ANSWER:

ITA's fee proposal calls for an average fee of $50 to be chargd for processing export license applications. Since firms export to profit and the administrations of the export licensing process is costly, the Administration decided to charge exporters a fee to partially offset the cost of processing export licenses. ITA is in the process of drafting a schedule of fees that would strive to neither discourage exports nor disproportionately burden small- or medium-sized businesses.

Questions Submitted by Senator Lautenberg

National Oceanic and Atmospheric Administration

QUESTION:

Landsat

In last year's supplemental appropriations bill, $27 million was set aside for the Landsat program, with the proviso that the Department of Commerce submit a viable plan for the commercialization of Landsat. The original Landsat contract called for two satellites and a ground station. The proposal submitted by the Department of Commerce would not have sufficiently funded one satellite.

I had supported the Department's proposal to reprogram the polar orbiter funds as an interim measure to keep Landsat from being terminated. However, the proposal did not accomplish the Congressional mandate to put forth a plan that would fulfill the terms of the contract.

When can we expect to see a plan from the Department of Commerce that will meet the requirements set forth by Congress?

ANSWER:

Following the disapproval by the Senate Appropriations Subcommittee of the one-satellite plan on January 23, 1987, DOC has been investigating other possibilities. However, we do not have the resources to increase the funding for the program above the President's budget. A proposal for a revised Landsat program is currently under review within the Administration. We will notify you as soon as possible if the Administration decides to support the revised plan.

International Trade Administration

Northville Industries

QUESTION:

Northville Industries, Inc., one of my corporate constituents, has applied for foreign trade zone status through the Port Authority of New York and New Jersey. The area for which a grant of FTZ status is sought is the site of petroleum product terminals. These terminals would be in a zone expansion of the Port Elizabeth/Newark Zone No. 49. Zone status for these terminals is sought so that Northville and their customers may market jet fuel, No. 2 heating oil, motor gasoline, kerosene and residual fuel oil as active participants in international petroleum product markets.

I have been informed that the Office of the Executive Secretary of the Foreign Trade Zone Board at the Department of Commerce is delaying the publication in the Federal Register of these applications. The reason for this delay is unclear, but it has been going on for some time. I am told it is related to the need for "policy guidance" regarding the importation of refined petroleum products, most specifically motor gasoline blendstocks

such as catalytic naphtha, which may be blended with domestic additives to produce motor gasoline which meets the specifications of the U.S. market.

This delay has caused my constituents hardship. While they await consideration of their zone application, several existing zones have the right to import, blend and enter fuels in the U.S. Customs territory. This seems unfair.

My state of New Jersey is one of the few in the United States which is energy negative -- we use more energy than we produce within the state. The ability of Northville and its customers to serve the motoring public of New Jersey, airlines at Newark International Airport, local utilities, and other users of refined petroleum products will be enhanced through the expeditious consideration and approval of the Port Authority application for the Northville sites in Linden, New Jersey.

Letters of support for this application have been entered by myself, Senator Bradley, Congressman Dwyer, the New Jersey Department of Economic Development, the City Council of Linden and consumer groups.

What is the status of this application? When can my constituents expect action on their request?

ANSWER:

While the FTZ Staff reviewed a draft in late 1986, the completed application was not received until February 24, 1987. The proposal requests authority for blending domestic and foreign fuels for importation, something the FTZ Board has not yet allowed in zones. During the past six months, ITA has withheld the formal filing of applications for operations involving foreign petroleum products pending the completion of a Department review of oil import issues raised in an application filed in early 1986. There has been significant opposition from the domestic petroleum refining industry.

Under the Foreign-Trade Zones Act, the Board must determine whether zone proposals are in the public interest, taking into account possible harmful effects on domestic industries and programs.

The first phase of our review was completed on March 4, when ITA received a report from the Department's Energy Staff. The report will be discussed on an interagency level during the next two months. A decision is expected by mid-year that would provide overall guidance on this subject. This would allow ITA to expedite the processing of cases such as the Northville proposal.

Questions Submitted by Senator Sasser

Economic Development Administration

QUESTION:

Mr. Secretary, I see in the President's budget that the Administration again wants to abolish the Economic Development Administration. Now, Congress has been through this battle with the Administration before and has insisted on continuation of the program. Don't you think it's about time for the Administration to recognize that Congress isn't about to eliminate EDA?

ANSWER:

The Administration will continue to propose budgets that are believed to be the most responsible and appropriate use of funds collected from the American taxpayer. The experience of this Administration indicates that more and more state and local governments are moving aggressively into economic development. State and local governments are closer to the issues, can better assess priorities and determine needs, and, finally, more properly apply financial resources based upon the principles of greatest need and the most cost-effective returns. Therefore, these programs should be the responsibility of state and local governments.

QUESTION:

The Administration says the programs are not cost effective, that they do not produce jobs. But when I travel across my State of Tennessee, I find plenty of evidence of the benefits of Economic Development Administration programs. Given Congress' sentiment on the issue, what alternative structure would Commerce support for EDA programs?

ANSWER:

EDA programs are a costly and inefficient means of creating jobs. Given the problem with the federal deficit, we simply can no longer afford the programs of EDA. Thus, the Department only proposes termination; any alternative structure would not eliminate the cost ineffectiveness of these programs.

International Trade Administration

Trade

QUESTION:

Mr. Secretary, as you know we on the Hill are proposing shoe and textile legislation again this Congress. My question is if you don't want us to pass this bill then what's your alternative?

ANSWER:

I do not believe that additional measures to protect the textile and apparel industries are necessary. Both the textile and apparel industries made significant gains in the major indicators of output and performance for 1986. Specifically:

-- textile profits rose 97 percent in the first three quarters of 1986
-- textile production rose 10 percent in 1986
-- apparel production rose 3 percent
-- textile employment rose 4.6 percent while apparel employment remained unchanged in 1986
-- textile mill capacity rose from 84.0 percent to 91.4 percent in 1986
-- textile mill inventories in December were down 6.6 percent below the previous December

In addition, these industries already benefit from the highest U.S. tariffs and from specific import quota restraints.

Last year, along with over fifty of our major trading partners, we successfully negotiated a renewal of the Multifiber Arrangement (MFA). The new MFA covers new fibers in addition to cotton, wool, and man-made fiber; contains strengthened language requiring cooperation by participants in stopping fraud and circumvention; and grants the right to extend the initial annual quota period by one year. Also, in 1986, we renegotiated agreements with four of our largest foreign suppliers to restrain their total growth to approximately one percent per year. In the past two years we imposed almost 300 new quotas in response to the threat of market disruption to our domestic industry. We intend to continue our aggressive implementation of the textile program to help our industry continue, or improve upon, its healthy performance in 1986.

QUESTION:

Repeated reference has been made by spokesmen for the Department of Commerce and the United States Trade Representative to the growing number of countries with which we have bilateral textile agreements and the great number of quotas in place to control textile imports. Is the Office of Textiles fully staffed and capable of satisfactorily carrying out its responsibilities?

ANSWER:

In recent months the Office of Textiles and Apparel has been staffed at 37 positions with 10 vacancies. We are moving as quickly as possible to fill vacant positions to ensure effective implementation of our textile agreements.

QUESTION:

The position of Deputy Assistant Secretary for Textiles and Apparel has been vacant for months. Why hasn't this position been filled? Can you not attract qualified candidates?

ANSWER:

As noted in the answer to the previous question, we are moving as quickly as possible to fill vacant positions, including that of Deputy Assistant Secretary for Textiles and Apparel. We have no problem attracting qualified candidates.

QUESTION:

What is the Office of Textiles doing, internally, to improve its operations?

ANSWER:

Our primary operational objective is to fill staff vacancies. The office is also placing increased emphasis on its import control activity.

Questions Submitted by Senator Rudman

General Administration

QUESTION:

The budget justification states that the Financial and Management Information System (FMIS) "will reduce maintenance costs by $5 million annually when fully operational." (GA-22)

Please provide the Committee with the study that supports this conclusion.

ANSWER:

In preparing its initial response to OMB Circular No. A-127, Financial Management Systems, the Department prepared baseline estimates of the cost of maintaining bureau existing financial and administrative systems and contrasted these estimates with the cost of maintaining a modern, Department-wide Financial and Management Information System, dated September 13, 1985 is enclosed. Copies of the Department's updated plan of September 30, 1986 are being provided to the committee.

Maintenance costs for the period FY 1986 - FY 1992 are summarized in the table below. The table shows total maintenance cost dropping, as the system becomes fully operational, from approximately $10 million in FY 1987 to approximately $5 million in FY 1992, a reduction of $5 million annually. These costs are based on estimates submitted by Commerce bureaus in response to the Department's FY 1988 planning call and reflect the Department's schedule for the phased implementation of a single, modern accounting system. These savings result from the fact that the Department will no longer have to maintain eight separate and unique accounting systems. The cost of maintaining a Department-wide accounting system is approximately the same as the current cost of maintaining the largest of the Department's eight existing accounting systems. Furthermore, FMIS will rely heavily on commercially available applications rather than on in-house development of systems unique to the Department of Commerce. This factor is expected to help keep maintenance cost down over the long run.

Maintenance Cost of Financial and Related Administration Systems

(In millions of dollars)

	1986	1987	1988	1989	1990	1991	1992
Bureau System Maintenance	11.1	9.0	8.0	4.9	2.3	1.1	1.1
FMIS Maintenance of Department-wide systems	1.5	1.3	1.5	3.3	3.4	3.4	3.5
Total	12.6	10.0	9.5	8.2	5.7	4.5	4.6

A $5 million reduction in annual maintenance costs under FMIS is believed to be a conservative estimate. Estimates of the cost of maintaining bureau systems are based generally on the cost of maintaining existing accounting systems and do not adequately reflect the cost of maintaining and enhancing bureau subsidiary systems and partially automated "cuff" systems. These systems exist largely because of the shortcomings of the existing Bureau financial and management systems.

A common set of financial and administrative systems under the FMIS umbrella will produce operational efficiencies and savings, beyond the savings resulting from lower maintenance costs. For example, installation of a Departmental accounting system with a standard accounts payable module will enable the Department to complete the consolidation of administrative payment activities begun in FY 1981. Similarly, a standard accounts receivable module will enable the Department to streamline its methods of billing and collection.

Question:

What will be the outyear costs of FMIS?

Answer:

The Department is preparing benefit cost studies of various elements of FMIS and will determine the precise costs during FY 1987.

Questions:

The budget justification (GA-23) states that of the $1,115,000 in equipment costs for FMIS, part will be for telecommunications hardware and software. Why is this needed? What will be the cost of this equipment?

Answer:

Currently the existing financial and administrative systems found in the Department operate at a number of locations on a variety of different kinds of computer equipment. For example, the eight accounting systems as currently operated by the Bureaus are at six different locations on computer equipment manufactured by four different companies.

The budget request of $1,115,000 for fiscal year 1988 includes $265 thousand for telecommunications hardware and software to be installed at the Department's computer center in Springfield, Virginia. Telecommunications equipment is needed in order to provide access to the FMIS central data base from Bureau and Department locations around the country. Capital investment items include:

- Front-end communication processor and software,
- Additional modem, and
- Multiplexors and de-multiplexors to permit multi-terminal links over a single communication line.

The budget request does not include the higher telecommunication costs at remote locations because they will be absorbed due to overall operating costs of the bureaus decreasing as a result of establishing common financial and administrative systems under FMIS.

Question:

In support of enhancements for the Office of Inspector General procurement and contract audits, the budget justification claims that there "is no question that Commerce contract costs avoided by pursuing this project, through better contracts and contract pricing, will be at least $20 million annually"

Please provide a justification for this figure.

Please provide a list of procurement and contract audits performed in 1986 and 1987. With actual or estimated savings in each case.

Is the savings of $20 million assumed in procurement contracts for which funding is requested in FY 1988? If not, why not?

Answer:

The $20M cost avoidance figure is based on the results of FY 86 contract audits (over $26.86M in cost avoidances) and FY 87 contract audits (about $5.5M now is cost avoidances and tens of millions of dollars in audit resolution and in the process of audits review). See attached savings reports.

The $20 million in cost avoidances is not reflected in the Department's FY 1988 budget. If funds are provided for this increase in FY 1988, work will begin in FY 1988 but cost avoidances will not occur immediately. Savings will be achieved in future years.

However, the budget proposes to offset a portion of the increase through reductions in three bureaus. Approximately $461 thousand of the $611 requested for procurement audits will be offset by reductions in the following bureaus.

Census	$69 thousand
NOAA	346 thousand
PTO	46 thousand
	$461 thousand

CONTRACT AUDIT SAVINGS REPORT

FISCAL YEAR 1986

BUREAU	CONTRACTOR	CONTROL NUMBER	TYPE OF REPORT	PROPOSAL AMOUNT	COSTS QUESTIONED	COSTS REINSTATED	COST SAVINGS	COST AVOIDANCE
N	Info. Mgt. Consultants Inc.	5-0279	P	$ 1.7m	$ 147,830	$ 94,774		$ 53,056
N	Turner Construction Co.	SFC-83-064	P	0.5m	7,511	3,747	3,764	
N	Turner Construction Co.	5-0739	F	2.5m	5,004	215	4,789	
N	Sperry Info. Systems Group	5-0520	P	8.2m	79,072	27,721		51,351
N	Harvard University	5-0848	P	1.0m	1,520			1,520
N	SM Systems & Research Corp.	5-0847	P	0.4m	51,968	39,897		12,071
N	Technical Services Lab. Inc.	5-0874	P	0.4m	6,045			6,045
N	Texas A&M Res. Fdn.	5-0877	P	3.0m	65,085	31,819		33,266
N	Battelle Memorial Institute	5-0875	P	8.8m	40,333	40,333		
N	Neroc Haystack Observatory	5-0740	P	0.3m	3,954			3,954
N	The Mitre Corp.	4-0701	P	2.2m	83,737	64,722		19,015
N	Computer Sciences Corp.	5-0745	P	9.5m	14,322	7,736		6,586
N	RCA Corp. Gov't Sys. Div.	5-0133	P	153.5m	10,100,700	1,003,600		9,097,100
N	Santa Barbara Res. Ctr.	5-0175	P	103.7m	27,698,718	16,828,192		10,870,526
N	Computer Sciences Corp.	5-0304	P	24.7m	3,068,088			3,068,088
N	RCA Astro-Electronics	5-0512	P	21.9m	2,310,100			2,310,100
N	T.S. Infosystems Inc.	5-0748	P	4.8m	156,627	41,347		115,280
N	Zapata Haynie Corp.	AIS-6-56	P	1.9m	187,563			187,563
P	T.S. Infosystems Inc.	5-0757	P	2.9m	174,441	165,379		9,062
N	Raytheon	5-0977	P	1.1m	13,162			13,162
N	Sperry	5-1011	P	3.4m	340,145			340,145
N	Enterprise Electronic	86-SA-001	P	.6m	467,866	409,186		58,680
N	VIZ Manufacturing	86-SA-004	P	6.1m	1,062,550	713,850		348,700
P	Control Module	86-SA-012	P	2.4m	333,124	333,124		
N	The Mitre Corp.	86-SA-013	P	2.4m	227,191			227,191
N	Nat'l Academy of Science	86-SA-051	P	.7m	4,938	1,109		3,829
N	T.S. Infosystems Inc.	86-SA-052	P	.8m	42,730	27,675		15,055
B	Burns and Roe	86-SA-055	P	.1m	5,211	700		4,511
P	System Development	86-AR-073	P	.01m	858	858		
B	ORDELLA	86-S121	P	.2m	2,556			2,556
N	Computer Sciences	86-N124	I		20,880		20,880	
		TOTALS		$369.7m	$46,723,829	$19,835,984	$ 29,433	$26,858,412

CONTRACT AUDIT SAVINGS REPORT

FISCAL YEAR 1987

BUREAU	CONTRACTOR	CONTROL NUMBER	TYPE OF REPORT	PROPOSAL AMOUNT	COSTS QUESTIONED	COSTS REINSTATED	COST SAVINGS	COST AVOIDANCE
	Bendix Corporation	86-SA017	P	$ .5m	$ 3,959	$	$	$ 3,959
N	University of Rhode Island	86-AR021	F	1.3m				
O	Porterhouse Maintenance	86-AR062	P	2.0m	46,536	37,356		9,180
N	Science Systems & Appl.	86-AR067	P	5.0m	51,217	31,195		20,022
N	OAO Corp.	86-N075	P	16.9m	450,078			450,078
N	Science Applications Int'l	86-N076	P	12.4m	86,231			86,231
N	ARCTEC Engineering	86-N077	P	7.0m	1,533,899	1,464,753		69,146
N	SASC	86-N078	P	17.3m	14,181			14,181
N	Booz-Allen & Hamilton	86-N079	P	20.5m	922,049			922,049
N	Applied Science Assoc.	86-N080	P	10.4m				
N	Greenhorne & O'Mara, Inc.	86-N081	P	9.5m	359,362	218,639		140,723
N	MAR, Inc.	86-N084	P	11.7m	412,363	412,363		
N	EG & G	86-N085	P	12.3m	199,324	123,955		75,369
N	EG & G	86-N086	P	13.0m	107,376	18,540		88,836
N	SAIC	86-N087	P	14.8m				
N	Science Appl. Int'l Service	86-N088	P	15.1m	72,374	32,732		39,642
N	Advance Technology	86-N089	P	11.5m	656,238	656,238		
N	Raytheon	86-N092	P	11.9m	503,711	9,385		494,326
S	University of Wisconsin	86-S096	I	2.6m	25,492	25,492		
B	University of Colorado	86-B100	P	1.5m	16,758			16,758
P	Int'l Computa-Print Corp.	86-P101	P	10.4m	381,796	16,809		364,987
N	Management Technology	86-N117	P	9.3m	195,000	17,378		177,622
N	Science & Environ. Assoc.	86-N121	P	.7m	73,818	44,227		29,591
C	Advertising Council	86-C138	P	4.2m	43,800			43,800
N	National System & Research	86-N138	P	2.5m	145,089			145,089
N	General Sciences Corp.	86-N146	P	1.5m	38,809	1,287		37,522
N	Sperry Corp.	86-N160	P	13.6m	2,280,490			2,280,490
		TOTALS		$239.4m	$ 8,619,950	$ 3,110,349	$	$ 5,509,601

Economic Affairs

QUESTION:

The budget proposal for Economic and Statistical Analysis includes $2,994,000 and 39 positions for economic policy support. (ESA-24) Please provide a description of each position and the necessity for such a program.

ANSWER:

The staff consists primarily of professional economists (29) and secretarial support (10). Of the 29 professionals, 16 work on the economic conditions and forecasting functions, and 13 work on policy analysis.

The principal function of this staff is to provide the Secretary and the Under Secretary for Economic Affairs with analyses of economic developments, forecasts of economic growth prospects and analytical support for the Department's participation in the Economic Policy Council. Members of this staff also coordinate statistical policy activities for the Under Secretary, and represent the USG on several committees of the OECD.

The staff prepares almost daily briefings for the Secretary on current economic developments, based on the statistics released by DOC and the other statistical agencies. This includes analysis of the data being released that day in the context of overall economic developments, and the preparation of press materials for the Secretary's use. The staff also prepares regular forecasts of economic growth for internal use and to support the Secretary's participation in the Administration's development of an economic forecast.

The staff also analyzes policy options ranging from tax and budget issues to pension, farm, labor, and credit policies, among others, to support the Secretary's participation in Administration policy councils.

This function is essential to supporting the Department's and the Secretary's role as one of the principal economic advisors to the President and to providing the public with economic commentary which places monthly and quarterly data releases in a broad economic context.

Bureau of the Census

QUESTION:

How many mini- and microcomputers does the Bureau of the Census plan to purchase in connection with the 1990 decennial census? What plans have been developed for the use or disposal of these computers after the census is complete?

ANSWER:

The procurement process and also good management practice require that we consider both lease and purchase options before we make the lease versus purchase decision. One feature of the acquisition process to acquire the computer systems is to allow contractors to propose lease or purchase alternatives. This allows us to consider lease/purchase options at the appropriate time, weighing factors such as costs, life cycle use, and disposition of the system. Since the actual bid process could result in a decision to lease, we haven't made final disposition plans for the 50 (includes 3 for Headquarters) larger systems.

However, from what we currently know of industry pricing policies, we expect that it will be more advantageous to purchase versus lease the 469 (includes 2 for Headquarters) smaller-type systems.

Present planning indicates the need to acquire no more than 519 minicomputer systems to support the 1990 decennial census. At this time it is anticipated that applications normally supported by microcomputer-based systems will be accomplished through the use of "intelligent" terminals connected to the minicomputer systems. The distribution of systems by census office is as follows:

5 systems in Headquarters
47 systems in 11 processing offices
455 systems in 455 district offices
12 systems in 12 regional census centers

The disposition of 467 smaller-type (levels D and E) minicomputer systems in the district offices and regional census centers will be as follows:

200 systems will support the data entry/editing of 1992 economic census forms, to perform edit referrals for cases failing the complex edits, and finally as interactive devices for doing data analysis prior to and during the tabulation phase of the processing cycle. Another 100 of these systems will be redeployed within the Census Bureau as branch- and section-level systems compatible with the larger mainframe-satellite interactive survey analysis resources (ISAR) for use by the current survey analysts. The remaining 167 systems could be made available to the Department and other Commerce agencies according to standard General Services Administration excess property procedures.

The 47 larger systems (B level) in the processing offices will be used to support all 1990 Census operations, and the 3 larger systems (levels B and C) at Headquarters are for software development, inventory control system, management information system, and post-census activities. The 2 smaller-type systems (levels D and E) at Headquarters are also for software and systems development.

The disposition of the larger systems will depend on the final lease/purchase decision.

International Trade Administration

QUESTION:

Under Section 201 of the Trade Act, the International Trade Commission (ITC) investigates whether domestic industries may be eligible for import relief if increased imports are a substantial cause of serious injury. Based on these investigations, the Commission makes recommendations to the President as to the form import relief should take. In 13 cases since 1976 the Administration has taken no action on recommendations for import quotas, tariff increases, or import duties. Based on that track record, do you believe that the Congress should mandate relief recommended by the ITC in Section 201 cases?

ANSWER:

No. ITA opposes any changes which would reduce the President's role in determining whether to grant relief or require mandatory relief where the ITC injury vote is unanimous. We believe this Administration's track record with respect to providing import relief under Section 201 is an excellent one and points to its commitment to enforce our trade laws.

This Administration has provided more effective import relief more often under Section 201 than any other administration. Of 16 cases filed since 1980, the ITC found no injury in ten. Of the 6 in which the ITC found injury, the President provided substantial relief in four. He declined to provide relief in only two cases: copper, where relief would have hurt copper fabricators accounting for six times as many jobs as copper producers; and footwear, in which the relief recommended by the ITC would have cost consumers an estimated $3 billion, and exporters a substantial additional sum in markets lost through retaliation.

Finally, this Administration does support amending Section 201 in ways to make it more responsive and conducive to industry adjustment. The Administration's competitiveness bill clarifies that relief under Section 201 is possible during an economic recession, proposes new options for relief, provides expedited relief for perishable agricultural products and requires that 201 relief must lead to the future competitiveness of the industry.

QUESTION:

Last month a Defense Department panel that included former Under Secretary of Commerce Lionel Olmer recommended to Secretary Weinberger that the United States create a government-industry consortium to restore the country's edge in semiconductor technology. They recommended $1 billion in federal spending over the next 5 years in an effort to preserve the industry and prevent reliance on foreign suppliers. In fact, the 1988 budget request for the Defense Department includes $50 million for a "semiconductor technology initiative."

Do you support such a proposal?

ANSWER:

In principle, ITA supports the recommendations of the Task Force to help this country recapture and retain leadership in semiconductor manufacturing technology.

However, while we recognize the importance of R&D to the future of the industry, it will not be sufficient to ensure this future.

U.S. industry must have greatly increased access to foreign markets if it is to have the economically viable scale of operations that the Task Force report refers to as "the huge commercial market."

The production of many consumer products which use a large number of semiconductors, such as radios, TVs, and VCRs, has shifted to the Far East and has been largely lost as a market for U.S. semiconductors. Today, Japan has both its own market for semiconductors and a large part of the U.S.' while our companies have what's left of the U.S. market. The U.S. must have access to foreign markets in order to achieve the economies of scale necessary to price our semiconductors competitively.

Japanese dominance of the world market for semiconductors is forcing U.S. producers to seek low-volume application - specific "niche" markets for their products. This specialization will not support the basic and applied research needed for global technological leadership, nor meet the needs of the Department of Defense.

ITA also favors the Task Force report recommendation that immediate action to set up a semiconductor manufacturing technology institute is essential. Semiconductor technology evolves very rapidly, and the U.S. is faced with the task of overtaking and seizing the lead now held by the Japanese.

ITA is, however, concerned as to whether our semiconductor industry, experiencing a soft market for its products, competition from the Far East, and serious financial losses, will be in a position to come up with the $250 million advanced funding proposed by the Task Force.

QUESTION:

One idea that is being discussed as a deficit reduction mechanism and as a financing tool to fund programs to improve competitiveness is the auctioning of import quotas. What would be the problems and benefits of such a program?

ANSWER:

The President currently has discretionary authority to conduct quota auctions under the 1979 Trade Agreements Act, but has never implemented such a program. In recent weeks renewed interest in quota auctioning has resurfaced and numerous proposals have been put forward.

Proponents claim that auctioning would generate potentially enormous revenues -- almost $5 billion according to one widely-cited estimate. Some would like to use these revenues to reduce the federal budget deficit, while others would earmark funds for enhanced trade adjustment assistance and worker retraining programs.

It is likely these estimates are overstated, since roughly two-thirds of the projected revenue would come from products under voluntary restraint agreements. If limited to textile and agricultural items, the revenue estimates would be less than $2 billion.

It should be noted the Administration's competitiveness bill proposes $980 million for an expanded worker adjustment assistance program, which would be funded through normal budgetary means.

We are concerned that the kind of quota auction system envisaged would violate the GATT, and have also traditionally argued against creating a new bureaucracy. In addition, importers and retailers argue that auctioning would create intolerable uncertainties in the marketplace.

Clearly, there are arguments on both sides of the issue. Given the myriad economic, legal, financial, and trade policy implications of quota auctioning, further examination is appropriate.

QUESTION:

Regarding the increase in user fees proposed for certain services of the International Trade Administration, the following statement is made: "A precise schedule of fees to be charged by ITA for the above services is being developed. Total income from these new charges will be $9 million in 1988." (ITA-4). How was this income level estimate arrived at if no schedule of fees was established?

ANSWER:

The income level estimate of $9,000,000 has two components. The first is export license fees of $5,250,000. It was arrived at by multiplying the anticipated number of export license applications for FY 1988 by $50. The $50 represents partial cost recovery for export license processing.

The second component involves revenues generated by the sale of subscriptions to ITA's Commercial Information Management System (CIMS). An annual fee of $150 will be charged to approximately 25,000 businesses for total revenues of $3,250,000.

QUESTION:

Of the $4,081,000 increase requested for international economic policy, $1,053,000 is identified for "other services" (ITA-30).

Please provide a detailed justification of this portion of the request.

ANSWER:

To effectively develop and promote our negotiating position for the wide range of issues to be considered in the Uruguay Round of GATT negotiations, ITA must develop a computerized database of tariffs and non-tariff barriers. This database will then be used extensively by ITA's international economists and trade specialists to analyze the impact of various negotiating strategies by industry sector and by country. Without a comprehensive computerized database, it will be difficult to coordinate U.S. positions in the often overlapping negotiating areas and to ensure that all negotiators are operating from the same information base. The following list provides further detail of the costs involved:

Centralized services and administrative expenses.....	$269,000
Timeshare costs for system development.....	280,000
Contract costs for computer system development.....	228,000
Timeshare costs for data retrieval and applications..	276,000
Total.....	$1,053,000

QUESTION:

Please provide a detailed justification of the $6,841,000 increase for the 1988 base for trade administration, and the $6,809,000 increase for the U.S. and Foreign Commercial Service.

ANSWER:

The following is Trade Administration's FY 1988 base adjustments:

Transfer from Department of Defense (Operations and Maintenance, Defense Agencies) for export administration activities.....	$1,500,000
Federal Employees' Retirement System.....	2,055,000
Annualization of FY 1987 increases.....	290,000
Restoration of non-recurring base reductions.....	1,151,000
Within-grade step increase.....	264,000
Extra compensation day in 1988.....	108,000
Federal Insurance Contributions Act.....	21,000
Printing.....	39,000
Overseas wage and price increases.....	10,000
National Security Directive.....	7,000
Management Savings.....	-110,000
Administrative Overhead.....	1,506,000
Total.....	$6,841,000

The following is the U.S. and Foreign Commercial Service FY 1988 base adjustments:

Federal Employees' Retirement System.....	$3,049,000
Restoration of non-recurring base reductions.....	1,639,000
Within-grade step increase.....	306,000
Extra compensable day in 1988.....	173,000
Federal Insurance Contributions Act.....	8,000

Printing	31,000
Overseas wage and price increases	667,000
Management savings	-114,000
Administration Overhead	1,050,000
Total	$6,809,000

QUESTION:

Given the recently announced relaxation of export controls, does ITA now need the increase of 7 positions and $1,200,000 for foreign operations?

ANSWER:

Recent initiatives to streamline the export control process are designed to facilitate export trade while continuing to focus our attention on protecting vital national security and foreign policy interests. Even though some commodities will no longer require a valid export license, it is still necessary to comply with the rules, particularly end-use restrictions. In short, relaxation of some controls does not mean a relaxation in our efforts to foster export control compliance, both here and abroad, and to enforce the Export Administration Act effectively.

The seven Export Control Attaches positions which Commerce has requested are still needed in order to maintain our enforcement vigilance and to handle the overseas workload; a workload which is not expected to decrease because of the recent relaxation of export controls. Figures for the first quarter of FY 1987 show a sizeable increase over FY 86 in this area. With a lower dollar and our anticipation of more exports, the potential for diversion will continue to grow steadily. In addition, special circumstances are also increasing the workload. The new Anti-Apartheid Act adds computer manufacturing equipment to those items controlled for South Africa and bans the export of crude oil and refined petroleum products. These additional requirements add to our already heavy export control workload in South Africa, which is one of the seven posts slated to have a full-time officer.

These Export Control Attaches will be an integral part of our enforcement efforts to focus on truly critical technologies. These individuals will devote their full-time efforts to increasing the number of on-site pre-license and post-shipment checks; raising the quality and timeliness of export control guidance that must be provided to foreign buyers to ensure compliance; taking swift and effective enforcement action; and developing essential sources of information. The additional permanent positions devoted exclusively to export licensing also allow commercial officers in these areas to use their time for export promotion and other trade related matters. Experience has proven the effectiveness and efficiency of our Export Control Attaches in Vienna and Stockholm. Their work is an indispensable asset to all Government agencies involved in export control and enforcement.

United States Travel and Tourism Administration

QUESTION:

The Department is requesting the initiation of a $1 per airline ticket user fee to support the operations of the United States Travel and Tourism Administration. Several issues are raised by this proposal.

-- A user fee is designed to offset the cost of a service; however; $6 million of the $18 million expected to be raised by this fee is proposed to be deposited in the Treasury. That makes that portion of the fee a tax, pure and simple. If we are going to have a user fee, why not allow USTTA to retain all of the proceeds?

ANSWER:

The $18 million in receivables in FY 1988 reflect the amount due to USTTA resulting from a $1.00 ticket fee charge. The $1.00 dollar level was established based on the fact that the airline and passenger ship industry requested that any fee be in whole dollars, instead of fractions, to minimize their bookkeeping and administrative workload. $1.00 was chosen because that was the minimum that would satisfy USTTA's funding requirements. The excess collections, above and beyond what Congress authorizes USTTA to use, would be returned to Treasury.

QUESTION:

Over the past two years we've added a $5 Customs user fee to the cost of an international airline ticket, as well as a $5 INS inspection fee; aren't we in danger of overburdening this source of revenue?

ANSWER:

Not really, many countries charge higher fees. It is the practice in over 90 other countries to have departure or travel fees of some sort.

QUESTIONS SUBMITTED BY SENATOR WEICKER

Economic Development Administration

QUESTION:

Mr. Secretary, does the EDA give priority to the best economic development project each year in each state as judged by the Economic Development Representative (EDR) for the state, or is the determination made purely on the unemployment rate of a given state, thereby penalizing eastern states who still have serious needs?

ANSWER:

EDA funds have been distributed on a regional basis. No specific allocations are given to any state. The development of proposals from throughout the region have been at the discretion of the regional director with guidance from Headquarters.

EDA did not rely solely on unemployment statistics in determining which applications are competitive. EDA also has considered such factors as outmigration, low per capita income, farm delinquencies and bankruptcies, significant plant closures and availability of existing credit to finance new business activity. EDA also has given consideration to addressing pockets of poverty where the overall unemployment rate or other criteria is comparatively low. It should be noted, however, that when a pocket of poverty has been provided as the rationale for an EDA investment decision, care has been taken to ensure that EDA assistance was specifically targeted to the unemployed and underemployed in the impacted area.

QUESTION:

Secondly, is the determination also heavily affected by an overall national rural/urban picture rather than a population mix of the EDA regions, which again penalizes Connecticut because of its substantial urban population?

The intent of Congress was as follows:

1. Any designated area be able to have its projects considered.

2. No state be excluded from participation.

3. EDA, each year shall give consideration to the best economic development project in each state, including states with relatively low unemployment rates.

4. The urban/rural division more closely be aligned to urban/rural population of the EDA regions.

ANSWER:

EDA has been program targeted by the Congress to address areas of high economic distress. Specifically, with the passage of the Public Works and Economic Development Act of 1965, Congress stated the following:

> The Congress declares that the maintenance of the national economy at a high level is vital to the best interests of the United States, but that some of our regions, counties and communities are suffering substantial and persistent unemployment and underemployment; that such unemployment and underemployment cause hardship to many individuals and their families and waste invaluable human resources; that to overcome this problem the Federal Government, in cooperation with the States, should help areas and regions of substantial unemployment and underemployment to take effective steps in planning and financing their public works and economic development....

It could be argued that the overall unemployment rate in Connecticut of 3.4% is low when compared to many other regions of the country. At the same time, the Agency has awarded grants to Connecticut when justification could be made on the basis of criteria other than the overall unemployment. These grants total $635,000 in FY 1985 and $1,630,000 in FY 1986.

Finally, Connecticut has received a significant portion of EDA assistance over the years. For example, in the counties of Hartford and New Haven, the Agency has made investments totalling $65.0 million and $52.0 million respectively.

Minority Business Development Agency

QUESTION:

Mac last year, the President's budget proposed transferring SBA to the Department of Commerce and merging the minority business programs with the Minority Business Development Agency (MBDA). This year, as you know, the budget proposes transferring the Business Development Center program at MBDA to SBA. Do you support this year's budget proposal? What do you see as the advantages of merging the two programs? Are there any disadvantages from your point of view?

ANSWER:

Yes, I support the consolidation of services as proposed by the Administration. Beginning in 1989, the Administration proposal will achieve combined annual savings of $13.1 million ($8.3 million in DOC and $4.8 in SBA).

Any transfer of services involves some temporary disadvantages, but I believe the advantages outweigh the disadvantages.

QUESTION:

Some opponents of the proposed transfer say that transferring the minority business program to SBA will diminish the clout and advocacy that MBDA now has by virtue of being in a Cabinet Level Agency which has access to the President. As the Secretary of Commerce, what is your opinion? Will this proposed transfer diminish the clout or advocacy of minority business issues within the Executive Branch by taking it out of the Department of Commerce?

ANSWER:

I feel the Department of Commerce has maintained an extremely high level of presence for minority business both among all government agencies and within the highest echelons of corporate America. Minority businesses will continue to benefit from the ongoing Commerce efforts to assist small businesses, which includes the vast majority of minority businesses. I believe that SBA will be able to replicate this presence even though they are not a Cabinet Level Agency. Because the vast of majority of minority businesses are small (only 10% are estimated to have 5 or more employees), minority businesses will benefit from the consolidation of MBDA activities with those of SBA because SBA's program and advocacy efforts are specifically targeted to small business. SBA advocacy efforts will be broadened to include explicitly minority business concerns. Therefore, in SBA, minority business concerns can be given focused attention.

QUESTION:

There are approximately 100 Business Development Centers around the country that have cooperative agreements with MBDA. Some of those centers have awards to operate the centers for more than one year. Is it envisioned that these agreements will be continued?

ANSWER:

It is envisioned that the current policies regarding Business Development Center (BDC) financial awards will be continued.

The BDCs financial awards are for one year only but may be renewed without competition for up to three years, if performance is satisfactory. After three years, the award must be opened for competition.

QUESTION:

As I understand it, under the budget proposal, about 140 full-time positions would be transferred to SBA. What will happen with the other MBDA employees that are not transferred?

ANSWER:

A reduction-in-force will be conducted to reduce 77 positions. As is always the case when a RIF is necessary, the Department will provide aggressive outplacement services including letters to Commerce bureaus and Federal agencies requesting special consideration, registration in Commerce and OPM priority placement lists, and one-on-one employment counseling. SBA has already indicated its willingness to help with this effort.

Questions Submitted by Senator Kasten

International Trade Administration

QUESTION:

Secretary Baldrige, the U.S. & Foreign Commercial Service has seen sizable reductions in its manpower from the levels of the past. There are 7 additional persons requested for this area, but for persons not seemingly related to the portion of the Service's mission of actively expanding our foreign trade. At a time when we are looking to expand our foreign trade, and even recognizing budgetary restraints, why hasn't this Service been expanded?

ANSWER:

The 7 persons being requested are to perform export control functions. Having these additional people would free-up the equivalent of 7 officers to pursue direct export promotion activities. This would expand our manpower of Foreign Commercial Officers by about 4%.

During the early years of the US&FCS we expanded our staff of officers and foreign nationals. By 1985 we had reached a workable level of personnel and funding, with posts able to carry out a balanced program of promotion activities. During FY 86 and FY 87 the US&FCS had to take their fair share of Gramm-Rudman mandated cuts. In FY 86 we spared the foreign side personnel and funding cuts, since they were already being affected by increased costs due to dollar depreciation. The FY 87 authorization precluded an expansion of personnel.

We are maintaining momentum. For instance, we have moved to improve our effectiveness by implementation of the Commercial Information Managements System (CIMS) which will enhance our ability to provide custom trade information; we have launched a new awareness campaign with the Advertising Council; and, we continue our active partnership with state development agencies to complement our services.

QUESTION:

Secretary Baldrige, following up on some of the discussion that we had at the full Commerce Committee hearing on competitiveness, have you, or the Department, had time to review further the provisions of the Bentsen Omnibus Trade Act relating to the system in that bill whereby some of the Administration's discretion as to the imposition of sanctions is taken away?

If so, have you or the Department developed any position with respect to this question? Is there a middle ground between removing all the President's discretion and just keeping the arrangement that we have now as far as you can see?

ANSWER:

The Department is carefully reviewing the amendments to Section 301 of the Trade Act which are proposed in Senator Bentsen's bill, S.490. Reducing the President's discretion in using his 301 authority is not the answer.

The Administration's proposed changes would strengthen Section 301 as a tool in our bilateral strategy to eliminate unfair foreign trade practices. Our record in applying existing 301 authority to achieve this objective is excellent and further progress could be made if the Administration's proposals were accepted.

One of our suggested changes is to amend Section 301 to mandate that, in considering whether a foreign practice is unreasonable, appropriate consideration be given to market opportunities in the United States. The U.S. market opportunities consideration alone would not necessarily determine whether the act, policy or practice was unreasonable. It would, however, ensure that such an analysis would be considered in all 301 cases.

Another key change we are proposing is to require the U.S. Trade Representative to make a recommendation to the President in all 301 cases within an outside time limit of 24 months. Under current law, when a case is referred to multilateral dispute settlement proceedings, the U.S. Trade Representative is required to recommend appropriate action to the President 30 days after the conclusion of dispute settlement proceedings. While the new deadline does not prejudge what action the President may choose, it would help ensure prompt resolution of 301 cases.

While these are two areas where the Administration agrees that Section 301 could benefit from revision, we remain opposed to provisions which require self-initiation or retaliation. Such provisions are counterproductive, reducing the President's flexibility and capability to negotiate the most advantageous settlement for U.S. industry.

Questions Submitted by Senator Specter

International Trade Administration

QUESTION:

Last year, Congress clearly expressed its intent regarding the Trade Adjustment Assistance program by extending the Trade Adjustment Assistance authorization until 1991. At present, the ITA has an unobligated balance of $8.2 million dollars in FY 86 Trade Adjustment Assistance funds. ITA is seeking to reprogram these funds, and has requested rescissions of FY 87 TAA funds (approximately $11.4 million). What are the reasons for this unobligated balance? Why is the ITA seeking a rescission when Congress has clearly stated its intent to continue this program?

ANSWER:

During FY 1986 less TAA technical assistance funds were obligated than appropriated due to the loss of TAA legislative authority. TAACs were in a phaseout/close-out mode for four to six months during FY 1986, during which time most firm assistance activities were curtailed and TAAC staff levels were reduced. FY 1986 TAAC refunding was for a shorter duration than in past years, since all TAACs funded during FY 1986 had December 31, 1986 expiration dates. Three TAACs that were funded in past fiscal years were not funded during FY 1986 -- Mid-America, Mid-Atlantic and Puerto Rico. The Mid-America TAAC's sponsor organization, the University of Arkansas, informed us in June 1986 that they did not wish to continue as the TAAC sponsor. The Mid-Atlantic TAAC had sufficient carryover funds from FY 1985 funding to operate until December 31, 1986. The Puerto Rico TAAC expired on December 31, 1985 and was not reestablished. For the above reasons ITA had an unobligated balance of $8.2 million dollars of FY 1986 TAA technical assistance funds.

ITA was seeking a rescission of the TAA program for the following reasons:

- o The fact that a firm has been harmed by import competition should not constitute per se justification for special Government assistance.

- o Such special treatment is unfair to firms that have been harmed by domestic competitive or other market-based factors.

- o U.S. trade laws provide remedies against unfair import competition.

- o Critical components of the import problems are beyond TAA's control or influence:

  - Low foreign labor costs.
  - Foreign government subsidized industries.
  - The strengthening of the dollar in international markets.
  - The shifting of the U.S. economy from manufacturing to service industries.

QUESTION:

It is my understanding that, pursuant to a meeting on November 4, 1986, with the Council for Labor and Industry (CLI), members of my staff, and the members of Senator Heinz's staff, Assistant Secretary for Trade Development, H. P. Goldfield initiated, a further investigation of CLI, detailing another Commerce official to Philadelphia to meet with CLI personnel, make findings and provide recommendations to Mr. Goldfield? Please summarize the findings and recommendations made by Mr. Goldfield's subordinate.

ANSWER:

In a memorandum of December 19, 1986, the Commerce official stated that "It is my judgment that the programmatic performance and resource management problems which the Department of Commerce has experienced with CLI have not and are not being resolved to the point where I would be comfortable in recommending the renewal of this contract."

QUESTION:

An independent audit by the firm of DeLoitte, Haskins, and Sells concluded that CLI had administered its contracts in compliance, in all material respects, with provisions of the contracts and OMB Circular A-110. Moreover, the Inspector General, Sherman Funk, indicated in his November 14, 1986 memorandum to Mr. Goldfield that no criminal violations have occurred. Given these conclusions when and how do you expect the matter to be fully resolved?

ANSWER:

Office of Inspector General auditors have completed a quality control review of the DHS audit of CLI. They have noted what appear to be deficiencies in the scope and findings of the DHS audit. The IG has requested that DHS respond to the deficiencies noted and questions of coverage raised by the review of the DHS audit.

In addition, The Under Secretary for ITA has requested Inspector General Sherman Funk to undertake a comprehensive audit of CLI. CLI has received a 90-day, no-cost time extension of the TAAC award, during which time the comprehensive audit will take place.

Questions Submitted by Senator Domenici

Biennial Budget Cycle

QUESTION:

Calls for budget reform are increasingly heard as budget deadlines are too often missed, important budget decisions are delayed, appropriation bills and other direct spending legislation are held up in committee, and omnibus spending bills take the place of timely and orderly consideration of individual bills. One procedural reform that is being considered is the two-year budget cycle where budget and appropriations matters would be considered in the first year, and authorizations and oversight would be undertaken in the second year.

Would your department/agency favor a biennial budget process? What benefits would your agency achieve in a two-year appropriation cycle?

Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?

If you oppose the biennial budget concept, please give this subcommittee your reasons why.

Background

On January 29, 1987, Senators Roth, Domenici, and others introduced S. 416, the Federal Budget Reform Act of 1987, that would institute a two-year federal budget cycle. The bill has been jointly referred to the Senate Committees on the Budget and Governmental Affairs.

ANSWER:

The Administration is studying the subject of multi-year budgeting and whether to propose biennial budgeting for appropriations for accounts other than those in the national defense area.

Biennial budgeting may have substantial advantages for a number of agencies. We have not studied any specific proposals for biennial budgeting for the Department of Commerce, but for most of our accounts - which are administrative in nature - there would not be much applicability. For research, major procurement, and cyclical programs, the advantages may outweigh the disadvantages.

The major disadvantage of multi-year budgeting for most accounts is simply that the further away the budget year is from initial estimates the less reliable the estimates will be and the more vulnerable to uncertainty and shifting conditions. This, However, is not an insurmountable problem.

A proposal to spend the first year of a biennial cycle settling program questions and the second year appropriating funds has some merit, but until we see some results from the Administration's studies, we will not be in a position to make specific recommendations.

LETTERS FROM VARIOUS SENATORS

(CLERK's NOTE: Subsequent to the hearing, the subcommittee received the following letters from Senators Burdick, Mitchell, Baucus, Stafford, Chafee, and Durenberger, enclosing questions for the Secretary of Commerce. By direction of the chairman, the letter has been printed in the record, along with the Department's answers to the questions.)

(The letters and questions and answers follow:)

United States Senate

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
WASHINGTON, DC 20510-6175

1987 MAR 20

March 16, 1987

Senator Ernest F. Hollings, Chairman
Subcommittee on Commerce, Justice, State and the Judiciary
Committee on Appropriations
S-146 A
The Capitol
Washington, D.C. 20510

Dear Colleague:

We are writing to request your assistance in our evaluations of the adequacy of Federal agency efforts and funding levels to address the following environmental problems: the greenhouse effect, global climate change, and stratospheric ozone depletion.

As you may be aware, the Committee on Environment and Public Works has held a number of hearings on these issues. Testimony given at these hearings, and elsewhere, has caused us great concern over the prospect of unprecedented changes in global climate, as well as other environmental changes, and the implications of these changes.

There is broad scientific consensus that we are actively changing the composition of our atmosphere. Concentrations of carbon dioxide and other gases, including chloroflourocarbons, are increasing in the atmosphere as a result of man's activities. As a consequence, scientists predict unparalleled global warming and depletion of the Earth's protective stratospheric ozone layer. The implications include sea level rise, changes in rainfall patterns and agricultural regions, and increased incidence of skin cancer.

In order to assess the adequacy of Federal agency efforts to understand and respond to these problems, we have requested detailed information from various federal agencies on their programs relating to the greenhouse effect, global climatic change, and stratospheric ozone depletion. Attached are copies of the letters we sent to the Departments of Commerce and State.

To insure a timely response to our inquiry, and to have a written record of agency responses, we would appreciate it if you would submit these questions on our behalf during the Appropriations Committee hearing process and include the questions, as well as agency responses, in the Committee hearing record.

Thank you for your help in this matter.

Sincerely,

Robert T. Stafford

Quentin N. Burdick

John H. Chafee

George Mitchell

Dave Durenberger

Max Baucus

United States Senate
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
WASHINGTON, DC 20510-6175

February 20, 1987

Honorable Malcolm Baldrige
Secretary
Department of Commerce
14th Street between Constitution Avenue and E Street, N.W.
Washington, DC 20230

Dear Mr. Secretary:

By this letter we request the submission of information, not later than March 6, 1987, regarding your agency's activities in addressing the environmental problems of the greenhouse effect, global climate change, and stratospheric ozone depletion.

The Senate Environment and Public Works Committee has held a number of hearings on the greenhouse effect, global climate change, and stratospheric ozone depletion. Testimony given at these hearings has shown that we are already committed to an unprecedented increase in surface temperature over the next few decades, with possible effects including a rise in global sea level, changes in ocean circulation, and changes in precipitation patterns.

We are deeply concerned by the prospect of such major and unparalleled changes in the composition of the atmosphere, and the implications for global climatic and environmental change. We are requesting information regarding your agency's efforts in these areas to assist us in understanding the existing and anticipated programs already addressing these issues. Specifically we would appreciate your responses to the attached questions.

We have forwarded a copy of this letter to the Chairman of the Appropriations Committee, and have requested that he incorporate these questions and your responses in the record of the budget hearings for FY88.

We look forward to receiving your response no later than March 6, 1987. If you have questions, please feel free to call Kate Kimball, Ron Cooper, Steve Shimberg, or Curtis Moore. They may be reached through the Committee on Environment and Public Works at 224-6176.

Thank you for your support in working with us on these important environmental issues.

Sincerely,

Robert T. Stafford

Quentin N. Burdick

John H. Chafee

George J. Mitchell

Dave Durenberger

Max Baucus

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Questions for the Record by
The Senate Committee on Environment and Public Works

QUESTION:

GLOBAL CHANGE

Please describe each of your program(s) which directly or indirectly involve or support work on (a) the greenhouse effect, (b) climate change, and (c) stratospheric ozone depletion, including:

A. basic research efforts
B. effects on human health, biota, etc.
C. studies of policy options for avoiding, minimizing, or coping with predicted changes, including use of alternative fuels and substitute chemicals and conservation.

D. international programs.

ANSWER:

The National Oceanic and Atmospheric Administration's (NOAA) primary mission and statutory responsibility is to predict significant changes in the oceanic and atmospheric environments on a wide range of time and space scales. Thus large segments of NOAA's operational and research programs are directly or indirectly related to climate change, including the "greenhouse effect" and stratospheric ozone depletion. These issues require investigation of a climate system that includes interactions of oceans, atmosphere, land and ice surfaces, and the effects of human activities with knowledge of solar variability which influences the entire system.

NOAA's unique responsibility for environmental monitoring is critical to NOAA's climate studies and to research performed by others. Improvement and expansion of observational and data management activities has and will continue to provide a basis for improved environmental prediction.

A. Basic Research Programs

NOAA's Office of Oceanic and Atmospheric Research conducts a coordinated and integrated program of climate research, which includes greenhouse effect and stratospheric ozone research.

A major component of the climate research program is the international Tropical Oceans and Global Atmosphere (TOGA) program, which focuses on interannual variations in climate. NOAA is the lead agency in this program which includes investigations of the physics and dynamics of the coupled ocean-atmosphere system in equatorial oceans and its relationship to interannual variability of global climate. TOGA research (which includes NOAA, other-agency, and university and international investigations) has as its ultimate goal to improve predictive capability on the interannual time scale.

A key part of the TOGA program is, Equatorial Pacific Ocean

Climate Studies (EPOCS), an investigation begun in 1979, it involves a broad spectrum of oceanic and atmospheric measurements, diagnostics and modelling of the tropical Pacific. The total TOGA program serves as a model for the NOAA program in longer term climate predictions which are relevant to the greeenhouse warming issue.

Addressing the dynamics of climate change on longer time scales is the program Subtropical Atlantic Climate Climate Studies (STACS) which seeks to identify the processes that contribute most to the poleward transport of heat in the North Atlantic Ocean and to develop the technology to monitor them operationally in other regions of the world.

A foundation of the climate research program addressing the decadal and longer term climate variability issue is NOAA's Geophysical Monitoring for Climatic Change (GMCC) program. This effort provides high quality, long term measurements of carbon dioxide and other atmospheric trace constituents which significantly affect earth's radiation budget, as well as meteorological measurements to assess climate variability and determine long-term trends. GMCC operates remote monitoring stations (at Alaska, Hawaii, Samoa, and South Pole) - one tropical and one high latitude in each hemisphere - to provide baseline observations for global air quality monitoring. These are supplemented by several specialized monitoring networks operated by groups from the U.S. and other nations. Instrument calibration and development by both NOAA and the National Bureau of Standards support this program. Analysis and interpretation.of GMCC data focus on air quality changes that affect climate.

The NOAA climate modelling research program, conducted mainly at NOAA's Geophysical Fluid Dynamics Laboratory, develops mathematical models of the atmosphere, oceans, and coupled system. The atmospheric studies have three emphases:

- Description of the dynamical interaction between large-scale wave disturbances and the general circulation of the atmosphere.

- Identification of the physical and dynamical mechanisms that maintain climate and cause its variation.

- Evaluation of the effects of human activities on climate.

Ocean circulation studies, also central to climate research, concern the following:

- The large-scale response of the ocean to atmosphere forcing over a range of time scales from weeks to decades.

- Ocean observational studies of the structure and distribution of various tracers and development of models of the word's oceans. These include global sea level measurements which are currently based on water level measurements.

- o Interpretation of results in terms of a coherent hydrodynamical and thermodynamical framework.

- o Development of a capability to predict the large-scale behavior of the world's oceans in response to changing atmospheric conditions.

One of the most vigorous of these studies, modelling of the El Nino-Southern Oscillation phenomenon in association with EPOCS, has already resulted in the transfer of a model of the Tropical Pacific Ocean to the National Weather Service and to researchers at other NOAA laboratories.

In FY 1985, NOAA expanded atmospheric chemistry studies with a new research program, Radioactively Important Trace Species (RITS): Trends and Mechanisms, that focus on a unique set of trace species in the atmosphere. This set is composed of those constituents that are both radioactively and chemically active. The environmental issues that these species pose are twofold. First, it has become clear that carbon dioxide is not the only "greenhouse" species. There are others, such as chloroflurocarbons (CFCs), methane, ozone (in the lower atmosphere), nitrous oxide, and water vapor (in the stratosphere). If these increases continue, it is estimated that the global "greenhouse" warming from these gases will be as great as, and additive to, that expected from the carbon dioxide increases. Second, these species, unlike carbon dioxide, are chemically reactive with other species in the atmosphere. Indeed, many of these species are the principal actors in atmospheric chemistry, in particular, stratospheric ozone chemistry.

Reasons for the increasing abundances of these non-carbon dioxide "greenhouse" gases must be understood and the potential climatic and chemical consequences of changes must be predicted reliably. The RITS program was initiated to provide this understanding. NOAA was the first to justify this need, and the RITS program is the only coordinated start on this important scientific challenge and environmental problem.

The RITS program has four major research activities:

- o Long-term monitoring, as part of the GMCC program discussed above, to determine the temporal trends of the radioactively active trace species.

- o Chemical studies to understand the key reactions that form and remove these species.

- o Global transport and source sink investigations to determine how the species are distributed throughout the atmosphere and how they are emitted from or lost to surface areas.

- o Model development to assimilate the source, sink, chemical, and transport information into a theoretical framework that can explain the observed RITS trends and

distributions and predict possible future climatic and chemical effects from natural or human-induced changes in the abundances of the radioactively and chemically important trace species.

RITS also includes a small component which is investigating the role of the oceans as a natural source of atmospheric chemicals. Results to date suggest that the oceans may play a much larger role than originally expected since oceanic biota produce a large suite of highly reactive chemicals.

The NOAA RITS program is a keystone in both national and international global chemistry and climate research programs.

Other NOAA programs indirectly related to climate research include ocean prediction and observation, air sea interaction research, space environmental research which addresses the solar-terrestrial environment, and cloud and precipitation research.

As mentioned above, both the Geophysical Monitoring for Climate Change activities and the RITS program are critical to NOAA's research and monitoring effort in stratospheric ozone. GMCC provides NOAA's National Environmental Satellite, Data and Information Service (NESDIS) total-ozone, ozonesonde, and Umkehr ozone profile data for validation of SBUV-2 ozone data obtained aboard the NOAA-9 and succeeding satellites. NOAA is also active in improving the measurements by developing and implementing advanced satellite instruments capable of obtaining the data needed for understanding trends in stratospheric ozone. GMCC is also responsible for upgrading and calibrating Dobson instruments in the global total-ozone network and is active in international intercomparisons of ozone instruments. Analysis of ozone trends from GMCC data is performed at the Air Resources Laboratory.

NOAA's Aeronomy Laboratory is active in ozone research, developing and using aircraft- and balloon-borne instruments to measure key species involved in both stratospheric and tropospheric ozone chemistry. The Aeronomy Laboratory also performs theoretical research to model the chemistry and dynamics of the atmosphere in order to permit accurate prediction of trends. This work is supported by an active chemical kinetics program of laboratory investigations of important atmospheric reactions. These programs are directly applicable to stratospheric ozone depletion research, where modellers are working with experimentalists to determine the nature, causes, and implications of the Antarctic ozone hole and possible decreases in ozone in other locations. An Aeronomy Laboratory team participated in the interagency 1986 National Ozone Expedition to study the ozone hole and will be playing a major role in the planned 1987 expedition.

Modelling of stratospheric ozone and upper atmospheric chemistry and dynamics in general is also performed at the Geophysical Fluid Dynamics Laboratory, which has developed

three-dimensional models for investigating ozone photochemistry, radiative transfer in the atmosphere, accuracy of satellite sampling of the stratosphere, and seasonal cycles in stratospheric and tropospheric dynamics and transport.

In addition to basic research programs, NOAA provides services to the national and international scientific research communities which facilitate climate and stratospheric ozone research. The National Weather Service's Climate Analysis Center provides synoptic analysis of NOAA satellite-derived climate and ozone data produced by NESDIS. NESDIS also operates the National Climate Date Center to provide retrospective climate data to researchers worldwide.

B. Effects Research

NOAA's research programs do not currently address the effects of climate change or ozone depletion. NOAA is beginning to coordinate its programs so as to include some work on climatic effect on biota. Specifically, we are bringing ongoing work in the National Marine Fisheries Service on fisheries productivity and variability into closer contact with existing and developing climate research and prediction programs.

C. Policy Studies

NOAA is not involved in policy studies of the type mentioned in the question. Rather, NOAA provides the information and scientific basis for other organization entities to develop national and international policy options.

D. International Program

The TOGA program described above is an international effort, as is the International Satellite Land Surface Climatology Project and the International Satellite Cloud Climatology Project, in which NOAA participates. These programs are part of the World Climate Research Program in which NOAA is actively involved and in which NOAA has provided strong programmatic leadership.

NOAA is also actively involved, through the activities of its scientists, in developing the plans for the World Ocean Circulation Experiment (WOCE) and the International Geosphere-Biosphere Program (IGBP). These programs build on our expertise in programs begun in the 1950's and 1970's, such as climate monitoring, modelling, and EPOCS, and expanded during this decade by RITS and TOGA. We expect these activities to evolve naturally into support for WOCE and IGBP by the new decade.

QUESTION:

Please indicate your current agency priorities and where, among these priorities, the problems of the greenhouse effect, global climate change, and stratospheric ozone depletion appear.

ANSWER:

The top NOAA operational priority at present is modernization of the National Weather Service in support of NOAA's weather forecast and warning mission. However, growing national and international concerns about climate and global change makes this a high NOAA priority.

QUESTION:

Does your agency have a major thrust or focus with respect to greenhouse, climate change, and stratospheric ozone issue? What are the priorities within your greenhouse, climate change, and stratospheric ozone programs? Are these multi-year efforts? When do you anticipate completing each of these projects?

ANSWER:

The focus on NOAA's programs with respect to the "greenhouse effect" is the RITS program described in the response to question 1. This program expands NOAA's global monitoring networks for carbon to include more trace constituents and improve spatial and temporal resolution in order to better determine global distributions and trends. As this program develops, the research will enhance NOAA's existing effort to quantify chemical sources and sinks, characterize chemical processes, advance theoretical research, and improve prediction.

NOAA's overall climate program currently has a strong thrust in interannual climate variability and prediction. The Tropical Oceans-Global Atmosphere (TOGA) program has proved to be very successful in addressing one mode of global climate variability - the influence of tropical oceans in year-to-year global climate; e.g., the El Nino-Southern Oscillation (ENSO) phenomenon. A coordinated program of process studies, including field observations, analysis of historical data, and theoretical and modelling studies has led to the development of predictive models for seasonal and interannual forecasting.

Global climate research, which includes studies of the stratospheric ozone layer, has a strong focus in mathematical modeling of the chemistry and dynamics of the atmosphere. Observational studies are critical in model development and verification. With the availability of increasingly powerful computers, numerical models can achieve better resolution and provide climate predictions on a more regional (as opposed to global) scale.

In stratospheric ozone research, a major current thrust is to understand the Antarctic ozone hole. As principal participants in the National Ozone Expedition, NOAA scientists have lead the research community in the quest for an explanation of the decrease of stratospheric Antarctic ozone levels. This current focus is supported by and builds upon NOAA's overall stratospheric ozone research program.

Each of the programs mentioned above are multi-year efforts which continue to evolve to address the most pertinent scientific questions as they arise.

QUESTION:

The scientific evidence demonstrates that we are already committed to a 2°C increase in global average temperature, and that the effects of global warming may be manifested as early as the next several decades. How have these findings been factored into your planning? How does the magnitude and timing of these changes affect your projects?

ANSWER:

It would be more accurate to say "all other factors remaining constant, the greenhouse warming due to man's activities could be on the order of 2°C over several decades." However, other factors are not constant and the anticipated changes in climate must include both natural and human induced influences. At present, the variations of human induced influences are better understood than natural variations and over the last century, they have been smaller than natural variations.

The NOAA programmatic concept recognizes that the Earth's climate system is highly complex and interactive in nature, with the system's natural variability inseparably coupled with the effects of human activities. The program seeks to establish a sound scientific basis to provide a capability to predict impending climate changes on different time scales. This program will include questions of the magnitude and time scales for possible global warming effects. An additional and important new focus of the NOAA climate research program is to determine the regional implications of global increases in annual average temperature using mathematical models with better spatial resolutions than previously possible to simulate climate changes.

QUESTION:

Please provide a detailed accounting on the following, including a breakdown by specific offices/laboratories and projects for each fiscal year.

A. For the greenhouse effect
   1. Expenditures in FY 1986
   2. Appropriations and expected expenditures in FY 1987
   3. Budget request in FY 1988

B. For climate change
   1. Expenditures in FY 1986
   2. Appropriations and expected expenditures in FY 1987
   3. Budget request in FY 1988

C. For stratospheric ozone depletion
   1. Expenditures in FY 1986
   2. Appropriations and expected expenditures in FY 1987
   3. Budget request in FY 1988

ANSWER:

Since many of NOAA's climate and air quality activities have multiple program foci, no separate estimates for greenhouse effect, climate

changes, and stratospheric ozone depletion are presented. The following table does, however, show estimates for project, laboratory, or office.

NOAA BUDGET DETAIL FOR CLIMATE CHANGE, INCLUDING GREENHOUSE EFFECT & STRATOSPHERIC OZONE

(In Millions of Dollars)

PROJECT/LABORATORY/OFFICE	FY 1986 ACTUAL	FY 1987 AVAIL.	FY 1988 REQUEST
Tropical Oceans-Global Atmosphere (TOGA)	$5.3	$5.5	$2.5
Equatorial Pacific Ocean Climate Studies (EPOCS)	2.7	2.8	2.8
International Satellite Cloud Climatology Program (ISCCP)	0.3	0.3	0.3
Subtropical Atlantic Climate Studies (STACS)	0.8	0.8	0.8
Radiatively Important Trace Species (RITS)	1.4	2.5	2.5
Geophysical Monitoring for Climate Change (GMCC)	2.6	2.7	2.7
Geophysical Fluid Dynamics Laboratory Modeling (Greenhouse effect, strat. ozone, climate change)	2.4	2.5	2.5
Air Resources Laboratory Observation and Analysis (Greenhouse, strat. ozone, interannual climate)	2.2	2.3	2.3
Aeronomy Laboratory Observations and Theory (Greenhouse effect & strat. ozone)	2.1	2.5	2.5
National Ocean Service TOGA Field Support	0.5	0.7	0.1
National Ocean Service Monitoring and Modeling Related to Climate	0.3	4.4	0.2
National Marine Fisheris Service Studies of Climatic Influences on Fish Abundance	1.1	1.1	1.1
National Climate Program Office Inter-Governmental Climate Activities	1.8	2.1	1.1
Climate Analysis Center Research Activities	1.7	1.8	1.8
National Climatic Center Data and Information	8.8	9.2	9.2
SBUV Software and Components (Ozone detection)	2.4	2.4	2.4
Earth Radiation Budget and Stratospheric Gases	1.2	1.2	1.2
Climate XBT Data Processing and Economic Assessments of Climate Changes	0.9	0.9	0.9
Aircraft Support of Climate Research	1.1	1.0	1.0
Ship Support of Climate Research	5.7	6.4	6.5
	$45.3	$53.1	$44.4

QUESTION:

Please describe how your agency's efforts are coordinated with those of other Federal agencies and the scientific community.

ANSWER:

NOAA coordinates its efforts through a number of interagency groups which provide mechanisms for NOAA to routinely discuss and coordinate its ongoing programs with other agencies.

In the area of climate and greenhouse gases, the National Climate Program Act (P.L. 95-367) created a more formal planning and coordinating mechanism for program development. In these areas, NOAA programs are coordinated with other agencies through the development and implementation of a congressionally mandated 5 year plan. Participation in the preparation of this plan by nearly 14 Federal agencies builds the foundation for a strong interagency program. The plan identifies national priorities, defines required programs and designates lead agencies to oversee their implementation. The congressional mandated Policy Board of the National Climate Program (NCP) oversees the direction of the entire program.

The Congress has given the Department of Commerce (DOC) additional responsibility in the NCP by mandating that it provide the support staff and resources for the National Climate Program Office (NCPO). The NCPO coordinates the implementation of the NCP, prepares an Annual Report to Congress and the President and an annual budget report to OMB. The National Program is further coordinated through the NCPO with the World Climate Program, organized by the WMO and the International Council of Scientific Unions (ICSU).

Through the Subcommittee on Atmospheric Research of the Committee on Atmosphere and Oceans of the Federal Coordinating Council for Science, Engineering, and Technology, the DOC interacts regularly with other Federal agencies to propose, plan, coordinate, and review atmospheric science research programs.

NOAA also houses the Office of the Federal Coordinator for Meteorological Services and Supporting Research. The office supports a number of interdepartmental committees and working groups, including the Working Group for Monitoring the Stratosphere, in which NOAA plays an active role.

NOAA is also an active member of the Interagency Committee on Stratospheric Ozone Protection which is currently developing a 10-year plan for stratospheric monitoring. NOAA is also participating in the UNEP negotiations to control ozone-depleting chemicals. Through a number of national and international activities NOAA scientists are providing scientific leadership in building the scientific understanding of this issue.

In planning and implementing NOAA's programs in climate, greenhouse and ozone studies, the National Academy of Sciences (NAS) provides independent assessment and recommendations. These recommendations are regularly reviewed by NOAA and the other Federal agencies involved in the program. The NAS has provided numerous reports on greenhouse gases, climate change, and the NCP and in each case NOAA

has tried to be responsive to their recommendations. The currently program on Radiatively Important Trace Species (RITS) developed by NOAA, reflects recommendations of the NAS.

In addition to the formal mechanism described above, NOAA has worked closely with sister agencies to plan and execute a number of specific projects. The most recent example is the NSF, NOAA, NASA cooperation in the National Ozone Expedition to Antarctica to study the ozone hole. The rapid organization of this expedition shows the flexibility of the interagency structure, and how effective it can be in responding to a major scientific opportunity.

QUESTION:

What do you see as the five highest priority research needs in the area of greenhouse effect, global climate change, and stratospheric ozone depletion?

ANSWER:

Among the critical research needs in decadal and longer global climate change (including greenhouse warming) and stratospheric ozone (not in any particular order) are:

- More accurate and detailed delineation of the natural variability of the global atmospheric and oceanic circulation over the last century in order to more clearly define the dynamic behavior of the global climate system, the key scientific questions reflected in this behavior, and to provide a basis for projections into the future.

- More comprehensive identification and more precise quantification of the global atmospheric sources and sinks, distribution, and trends of natural and anthropogenic aerosols and chemical species that influence the global heat budget, together with improved measurement and analysis of clouds, radiation, and precipitation for use in models and diagnostics, and improved measurements of global sea level.

- Definition of the ocean's role in the transport of heat, salinity, and trace substances. This includes investigation of the role of recently discovered hydrothermal venting system along seafloor ridge crests in determining the chemical composition of the global oceans and atmosphere.

- Continuation of operational satellite ozone measurements to provide the broad global coverage and development and implementation of improved satellite measurement systems capable of achieving better altitude resolutions and obtaining data on other species and parameters of importance to ozone.

- Determining the cause and processes involved in the Antarctic ozone hole and the implications, if any, for global ozone depletion.

QUESTION:

Please describe in detail the current efforts of NOAA's Climate Program Office in coordinating Federal agency research and monitoring activities on global warming and climate change.

ANSWER:

The National Climate Program Office (NCPO) which is housed in NOAA for administrative purposes has been coordinating Federal agencies' activities regarding "greenhouse" gases, ozone monitoring and all issues relevant to climate change since its establishment in 1979 by legislative action (P.L. 95-367). This is accomplished in several ways: (1) organization and implementation of a National 5-year plan; (2) preparation of annual reports to Congress; (3) periodic meetings of the NCP Policy Board to address current climate change issues; (4) periodic meetings of an Interagency Working Group in support of Policy Board activities; (5) preparation of an annual assessment (for the Office of Management and Budget) of agency budgets being submitted each fiscal year; (6) frequent interaction among NCPO personnel and the staff of participating Federal agencies; and (7) frequent development of programs and projects involving coordination of two or more agencies that address climate change issues. Some examples of the last named:

- Assisting the Department of Energy (DOE) in effecting DOE leadership of the "carbon dioxide and climate" multi-agency activity;

- Assisting EPA in assessing the environmental and policy implications of these climate change issues;

- Coordinating interagency funding for special National Academy of Sciences panels that address research of climate changes; and

- Promoting interagency cooperation in the International Satellite Land Surface Climatology Project and the International Cloud Climatology Project.

The NCPO also coordinates U.S. participation in the World Climate Program and represents the U.S. in various bilateral agreements with other nations on matters relating to climate change.

QUESTION:

"Dr. Calio, from your perspective as chairman of the Domestic Policy Council's Special Task Force on Greenhouse Effect Policy, what is the status of the Task Force's efforts to determine administration policy on the greenhouse issue and climate change? When will a position paper be available?"

ANSWER:

The special task force referred to is the Ad Hoc Sub-Working Group on Energy, the Environment and Natural Resources. The task force reached a consensus on several issues involving the climate system and "global change." This consensus was presented orally to the

parent working group. While a number of working documents supporting the presentation have been produced, for the most part these are not appropriate for release as a formal report. As to the status of the effort and its role in Administration policy formulation, various policy options related managerial mechanisms are currently under exploration. I do not anticipate continuation of the present Ad Hoc Sub-Working Group in a permanent capacity, however. Beyond this, the Sub-Working group awaits further instructions from the parent Working Group and/or the Domestic Policy Council. Within NOAA, the Sub-Working group exercise is a major factor influencing our thinking in formulating plans and programs related to climate and global change.

LETTERS FROM SENATOR ROBERT C. BYRD .

(CLERK's NOTE: Subsequent to the hearing, the subcommittee has received letters from Senator Robert C. Byrd with regard to maintaining the Office of Productivity, Technology and Innovation and the Economic Development Assistance Program. By direction of the chairman, the letters have been printed in the record at this point.

(The letters follow:)

United States Senate
Office of the Majority Leader
Washington, DC 20510-7010

April 9, 1987

The Honorable Ernest F. Hollings
Chairman
Subcommitte on Commerce, Justice, State,
The Judiciary, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The purpose of this letter is to urge that the Office of Productivity, Technology, and Innovation of the Department of Commerce, be maintained in Fiscal Year 1988 at least at the Fiscal Year 1987 level.

American industry and its employees are deeply concerned with the ability of foreign firms to sell merchandise in the United States at prices below comparable domestic products. A major factor in the success of foreign-made goods is that very often they are produced more efficiently.

The United States has had considerable success in developing new technology and methods to increase productivity in order to underprice goods and to recapture domestic markets from offshore manufactures.

I am advised that recent changes in U.S. patent law now make it promising to address the longstanding problem of unexploited or underexploited technology developed by the many National Laboratories as embodied in their approximately 1,500 annual patent disclosures.

The past failure to exploit technology developed by the approximately 700 National Laboratories has to do with certain structural and procedural conditions. These conditions have not, however, inhibited foreign exploitation of U.S. funded technology, such as non-FDA approved pharmaceutical products which can be marketed immediately overseas. Consequently, the U.S. has been acting inadvertently as a technology bank for the rest of the industrial world with a corollary deleterious effect on our global competitiveness, productivity growth rate, and international trade balance.

If American industry and the small business community are to exploit more effectively, publicly funded technology, there must be an ample supply of available technology. For example, Japan, consistently with a higher productivity growth rate, imports 7 1/2 times as much technology as it exports. The United States exports 10 1/2 times as much technology as it imports.

The Office of Productivity, Technology and Innovation of the Department of Commerce has developed important methods of increasing productivity of domestic jobs and the resulting ability to compete successfully against foreign producers.

At this critical time, when an economic turnaround is essential, the major agency in government charged with the responsibility of increasing productivity and technology dissemination has been drastically reduced by the Office of Management and Budget in the Administration's Fiscal Year 1988 budget proposal--from 50 positions to about 12 positions a year from now, with $600,000 in payroll savings retained in the budget to be used as severance pay for the terminated employees.

Consequently, I recommend that when the Subcommittee deliberates on the Fiscal year 1988 Commerce Department budget, the funding level for the Office of Productivity, Technology and Innovation be maintained at least at last year's level of $2.7 million, and 50 positions, and if possible be increased so that it can perform its valuable mission of helping to create jobs for American workers. Report language prohibiting a reduction-in-force in this program would be appreciated.

Thank you for your cooperation. Your attention to this request will be genuinely appreciated.

With kind regards, I am

Sincerely yours,

Robert

Robert C. Byrd

RCB:tsb

United States Senate
Office of the Majority Leader
Washington, DC 20510-7010

March 13, 1987

The Honorable Ernest F. Hollings
Chairman
Commerce, Justice, State,
and Judiciary Subcommittee
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

When the Subcommittee deliberates on the fiscal year 1988 Commerce, Justice, State, and Judiciary Appropriation bill, I would be very appreciative if an amount of at least $180 million could be included for Economic Development Assistance programs, the same amount as provided in fiscal year 1987.

With regard to the Agricultural Weather, Fire Weather, and other weather and flash-flood warning programs of the National Weather Service, I would appreciate report language directing that these programs, as they affect West Virginia, be maintained at the fiscal year 1987 level.

The Integrated Flood Observing and Warning System (IFLOWS) is an excellent example of a Federal/state partnership and offers an important potential for mitigating the loss of life and damage caused by flash floods, which, according to the National Weather Service, are the leading weather-related cause of death in the United States. At my request, and with your cooperation, funding was included over the past several years to complete the IFLOWS program in the flood prone areas of West Virginia. The next step is for the Department of Commerce to redouble its efforts to see that the cooperative Federal-State IFLOWS project in West Virginia is accelerated and implemented as soon as possible. Report language to this effect would be appreciated.

Report language, similar to that included in previous years, urging the continued operation of the Charleston, West Virginia, office of the International Trade Administration would also be appreciated.

I am also concerned about declines in the levels of U.S. coal exports and, consequently, I urge that language similar to that included in previous years be included in the report regarding the current coal trade situation and the progress being made to implement the Joint Policy Statement on Energy Cooperation with Japan.

Thank you for your attention to these requests. Your cooperation is genuinely appreciated.

With warm regards, I am

Sincerely yours,

Robert

Robert C. Byrd

SUBCOMMITTEE RECESS

Senator RUDMAN. I appreciate it, Mr. Chairman. Thank you.

Senator HOLLINGS. Thank you very much.

[Whereupon, at 11:01 a.m., Thursday, March 5, the subcommittee was recessed, to reconvene at the call of the Chair.]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

WEDNESDAY, MARCH 11, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room S-146, the Capitol, Hon. Ernest P. Hollings (chairman) presiding.

Present: Senators Hollings, Lautenberg, Stevens, Weicker and Kasten.

DEPARTMENT OF COMMERCE

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

STATEMENT OF ANTHONY J. CALIO, UNDER SECRETARY FOR OCEANS AND ATMOSPHERE AND ADMINISTRATOR FOR NOAA

ACCOMPANIED BY:
J. CURTIS MACK, II, DEPUTY ADMINISTRATOR
KATHLEEN CHARLES, DEPUTY COMPTROLLER
MARK BROWN, DIRECTOR OF THE DEPARTMENTAL BUDGET OFFICE

BUDGET REQUEST

Senator HOLLINGS. This morning, the subcommittee will resume our review of the 1988 budget estimates of the Department of Commerce by looking at the requests of the National Oceanic and Atmospheric Administration. NOAA is requesting a total of $1,046,001,000 in appropriations for fiscal 1988 and 9,271 positions. This compares with the current level of appropriations of $1,041,000,000 and some odd dollars and 10,098 positions.

Again, this year, the administration proposes no funds for Sea Grant and Coastal Zone Management, as well as program decreases for 73 other NOAA programs amounting to $165,000,000. Most of these we have seen before and rejected, but the Office of Management and Budget persists in sending them back.

INTRODUCTION OF WITNESSES

Senator HOLLINGS. Our primary witness is Anthony J. Calio, the

Under Secretary for Oceans and Atmosphere and Administrator for NOAA. Mr. Calio is accompanied by J. Curtis Mack, II, the Deputy Administrator; Kathleen Charles, the Deputy Comptroller; as well as Mark Brown, Director of the departmental budget office.

I want to note the presence of Dr. Richard E. Hallgren, who has announced his retirement as Director of the National Weather Service. Dr. Hallgren, while it will be some time before you actually leave, I want you to know that we appreciate your outstanding service.

Mr. Calio, your full statement will be printed in the record. We would appreciate your highlighting it for us as you wish, but before you begin, let me yield to my colleagues, Senator Weicker and Senator Stevens.

I just made the opening comment, Lowell, and if you have any opening statement, we would be delighted.

Senator WEICKER. I have an opening statement, Mr. Chairman, which I will place into the record, and I will have questions when it is my turn.

Senator HOLLINGS. Your statement will be printed in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF HON. LOWELL P. WEICKER, JR.

U.S. SENATOR FROM CONNECTICUT

GOOD MORNING DR. CALIO. THANK YOU FOR JOINING US TODAY TO DISCUSS THE PROPOSED NOAA BUDGET FOR FY1988.

I REALIZE WE ARE IN AN ERA OF FISCAL AUSTERITY, BUT I FAIL TO SEE HOW THE PROPOSED NOAA BUDGET IS A RESPONSIBLE REACTION TO THIS SITUATION. IN STUDYING THE BUDGET, I SEE THE SAME ATTACK ON NOAA'S OCEAN PROGRAMS THAT CONGRESS HAS CONSISTENTLY REJECTED FOR THE LAST SIX YEARS. I CAN'T HELP BUT ASK MYSELF, WHAT'S NEW IN THIS BUDGET PROPOSAL?

THE INTENT AND EFFECTS OF THE PROPOSED PROGRAM CUTS ARE CERTAINLY NOT NEW. OCEAN, COASTAL, AND FISHERIES PROGRAMS, WHICH CONSTITUTED 37% OF THE FY1987 BUDGET ARE SLATED TO TAKE 74% OF THE PROPOSED CUTS AND RECEIVE NONE OF THE SIGNIFICANT INCREASES IN FY1988.

THE QUESTIONABLE PRESENTATION OF PREVIOUSLY ACCEPTED WEATHER AND ENVIRONMENTAL SATELLITE AND HARDWARE COSTS AS PROGRAM INCREASES IS ALSO NOTHING NEW. OF THE $126 MILLION IN SO-CALLED INCREASES PROPOSED FOR FY1988, ONLY $7 MILLION IS ACTUALLY FOR THE SUPPORT OF NEW PROGRAMS. THE OTHER $119 MILLION IS FOR CONTINUED SUPPORT OF ONGOING PROGRAMS, WHICH ARE CERTAINLY IMPORTANT TO NOAA'S MISSION, BUT SHOULD NOT BE CONSIDERED "INCREASES".

FINALLY, THE ADMINISTRATION'S INSISTENCE ON ZEROING OUT PROGRAMS WHICH HAVE CONTINUALLY DEMONSTRATED THEIR PRODUCTIVITY AND WIDESPREAD SUPPORT IS FAR FROM NEW. THE SEA GRANT, NATIONAL UNDERSEA RESEARCH, AND COASTAL ZONE MANAGEMENT STATE'S ASSISTANCE GRANTS PROGRAMS HAVE, THROUGH THE DILIGENCE OF CONGRESS, SURVIVED THIS ANNUAL ATTACK IN THE PAST AND, I CAN ASSURE YOU, WILL DO SO

AGAIN THIS YEAR. WHY DO WE IN CONGRESS CONTINUALLY HAVE TO RESTORE THESE PROGRAMS? WHY AREN'T THESE RESTORATIONS INCLUDED IN THE BUDGET REQUEST? THIS IS ESSENTIALLY THE SAME BUDGET WE'VE SEEN EVERY YEAR UNDER THIS ADMINISTRATION.

THE ONE NOTABLE NEW PROPOSAL IN THIS YEAR'S BUDGET IS THE PROPOSED MARINE FISHERIES CONSERVATION ASSURANCE PROGRAM ACT. AS I SEE IT, THIS IS LEGISLATION TO CREATE A FEDERAL COMMERCIAL AND SPORT FISHING TAX. THE FY1988 BUDGET PROPOSES TO INSTITUTE A FEDERAL STAMP AND PERMIT SYSTEM FOR SUCH ACTIVITIES AS COMMERCIAL FISHING IN MARINE WATERS; BUYING, LANDING, OR SELLING CERTAIN SPECIES OF FISH; AND FISHING FOR "GAMEFISH". MOST OF THE REVENUES FROM THIS TAX WOULD GO TO THE STATES AND THE GENERAL TREASURY. ONLY A SMALL PORTION OF THE INCOME WOULD GO TO THE NATIONAL MARINE FISHERIES SERVICE THROUGH A SUBSEQUENT BUDGET REQUEST "PROPOSED FOR LATER TRANSMITTAL" BY THE ADMINISTRATION AFTER PASSAGE OF THE ACT.

TWO ASPECTS OF THIS PROPOSED PERMIT SYSTEM ARE EXTREMELY DISCONCERTING. THE FIRST IS THE SIPHONING OFF OF A SUBSTANTIAL PORTION OF THE INCOME FOR THE GENERAL TREASURY, AND THE SECOND IS THE POOR FIT BETWEEN THE ACTIVITIES BEING TAXED AND THOSE PROGRAMS FUNDED BY THE INCOME. IF THIS WERE A USER FEE WHERE THOSE TAXED WERE THE IMMEDIATE BENEFICIARIES, THE PROGRAM CUTS AND LATER TRANSMITTAL CONTINGENT UPON ENACTMENT OF THE LEGISLATION MIGHT MAKE SENSE, BUT WE WILL HAVE TO EXAMINE THE MERITS AND PROBLEMS OF THE TAX ITSELF AT A LATER DATE.

THE NET EFFECT OF THE ADMINISTRATION'S PROPOSED BUDGET IS ALL TOO FAMILIAR. OCEANS AND ENVIRONMENTAL PROGRAMS ARE SACRIFICED TO SATELLITE PROGRAMS UNDER THE RUBRIC OF LOWER PRIORITIES AND REGIONAL BENEFITS. IT SEEMS THAT WE STILL HAVE VERY DIFFERENT PERCEPTIONS OF WHAT NOAA'S PRIORITIES OUGHT TO BE. MY POINT IS

THAT WE SHOULD BE ABLE TO MEET ALL OF NOAA'S DIVERSE RESPONSIBILITIES, THAT IS, TO KEEP NOAA THE NATION'S LEAD CIVILIAN OCEAN AND ATMOSPHERIC AGENCY.

DR CALIO, WHAT IS NOAA'S MARINE SCIENCE POLICY, AND HOW IS IT CONSISTENT WITH THE ADMINISTRATION'S OVERALL SCIENCE POLICY? NSF'S FY1988 BUDGET PROPOSES A 16.5% INCREASE, NASA IS REQUESTING A $25 MILLION INCREASE FOR GLOBAL CHANGE PROGRAMS ALONE, AND THE NAVY RECEIVED OVER $30 MILLION IN INCREASES FOR RESEARCH VESSELS IN FY1987. THE ROLE MANY OF US HAVE SEEN NOAA EMPHASIZING LATELY IS THAT OF A SERVICE AND HARDWARE AGENCY, NOT A SCIENCE AGENCY. WHILE THE SERVICE COMPONENTS OF NOAA ARE A VITAL PART OF ITS RESPONSIBILITIES, THEY SURELY SHOULD NOT BE ALLOWED TO DISPLACE ITS SCIENCE.

IT IS IN PART DUE TO THIS CHRONIC DEBATE OVER NOAA'S PRIORITIES THAT I HAVE INTRODUCED LEGISLATION TO ESTABLISH A NATIONAL MARINE POLICY COMMISSION. SUCH AN IMPARTIAL REVIEW OF OUR NATIONAL RESEARCH NEEDS AND THE ALLOCATION OF RESPONSIBILITIES AMONGST VARIOUS AGENCIES OF THE FEDERAL GOVERNMENT AND THE STATES IS CLEARLY NEEDED AT THIS TIME.

TODAY, HOWEVER, WE WHO HAVE DEALT WITH THESE PROGRAMS FOR MANY YEARS CONTINUE TO DEBATE NOAA'S PRIORITIES AS THEY ARE REFLECTED IN THE FY1988 BUDGET. THE TASK FOR US NOW IS TO TRY TO REALIGN THE PROPOSED FY1988 BUDGET WITH WHAT WE UNDERSTAND THE ROLE OF NOAA TO BE, THAT IS, BOTH AN OCEANIC AND AN ATMOSPHERIC SCIENCE AND PUBLIC SERVICE AGENCY. THE ADMINISTRATION'S PROPOSED BUDGET CLEARLY ASSUMES A DIFFERENT ROLE FOR NOAA, SO LET US GET ON WITH OUR DEBATE.

Senator STEVENS. Mr. Chairman, I will have some questions. I will submit them later. I have another subcommittee meeting. I want to be here for the opening statement.

Senator HOLLINGS. It will be submitted for the record. We would be glad to hear from you, sir.

PROGRAMS SUPPORTED BY BUDGET

Mr. CALIO. It is a pleasure for me to appear before you, Mr. Chairman, and the committee, to present and support our budget request. Our total appropriations request for fiscal year 1988 is $1,074,971,000.

Progress has been made in a number of NOAA's program areas, and our fiscal year 1988 budget request will allow us to continue those efforts, including understanding and predicting the effects of the El Nino phenomenon through the International Tropical Oceans and Global Atmospheric Program, which strives to improve our understanding of global atmospheric chemistry through studying trace gases in the atmosphere and their contributions to the greenhouse effect and ozone depletion; acquiring and deploying an operational network of wind profilers in the continental United States and continuing our research and development; my complementary system to measure temperature and water vapor.

If these systems prove successful, the current costly upper atmospheric observation network maintained by the National Weather Service could be, indeed, replaced in the future. We are improving our hurricane forecasting for landfall and storm intensity, and during fiscal year 1988, NOAA will continue toward the modernization of the National Weather Service by increasing our funding to begin production of the automated surface observations system, which is called ASOS; awarding contracts for systems development and definition for an interactive communication and data processing system called AWIPS, and to begin production of next generation radar systems, called NEXRAD.

These systems will allow the Weather Service to improve severe weather and flood warnings and forecasts to the nation.

Our fiscal year 1988 submission requests an increase for the National Weather Service to plan and demonstrate operational deployment of these three new technologies.

Our budget request continues full support for the procurement of the next series of geostationary satellites I through M, to provide a stabilization of continuous weather observations from space through the mid-1990's. These satellites with improved sensors will improve our capabilities to maintain surveillance and to assist in the prediction of severe storms, such as hurricanes and tornadoes.

Our request provides funding for a polar orbiting spacecraft to be launched with a.m. and p.m. orbits at 15- to 16-month intervals to provide back-up and continuity of operational coverage. In addition, our budget requests funds to plan and initiate an up-to-date cost effective system known as NOAAPORT to format and distribute data in support of the National Weather Service's interactive processing system program, among other NOAA data distribution efforts.

As you know, yesterday, the House Appropriations Committee took some action with respect to the Landsat commercialization program, where they advised us that we should proceed with a two spacecraft system with the funds for the second spacecraft to come from some source other than NOAA.

I assume that that language is to be worked out between the House Appropriations Committee and this committee, sir. We intend to support a strong and responsive fisheries management program in the fiscal year 1988 budget proposal. We will support the Fisheries Service efforts and standard update of management plans for major U.S. fisheries, and the second year of a 5-year program to study the eastern tropical Pacific dolphin.

Additional funding for the fisheries programs of approximately $29 million is proposed for later transmittal upon enactment of legislation submitted for a Marine Fisheries Conservation Assurance Program, and our proposed bill will be transmitted to the Congress very shortly.

PROGRAM ACTIONS AFFECTED BY FEDERAL DEFICIT

Mr. Chairman, I am sure you are well aware that, as a nation, we are facing a serious problem as the result of a sizeable Federal deficit. Dealing with that problem requires difficult budget decisions, and resource limits inevitably force us to make hard choices when there are simply not as many dollars available as we would like. Just the same, NOAA is approaching the future optimistically, and we will make every effort to apply the resources available to us to the best interests of the American public and the Congress.

To meet this challenge, we are shifting our focus to the expansion and improvement of our basic science capabilities to enable us to provide timely and high-quality scientific information, information in real time, to support government and the private sector in decision-making.

We are directing major attention to improving our overall data management and dissemination capabilities so that valuable scientific information data products will be available to the right users in a timely manner and in a useable form to provide effective support to meet those users' needs.

We will be looking increasingly towards State and local governments and industry to join in cooperative programs, to share those activities, and to share costs of those activities as appropriate. With these efforts, we hope to build a stronger and more responsive NOAA. Thank you, Mr. Chairman, and I would be happy to address any questions you or any members of your committee could have on the budget request.

[The statement of Anthony J. Calio for the record follows:]

PREPARED STATEMENT OF ANTHONY J. CALIO
UNDERSECRETARY FOR OCEANS AND ATMOSPHERE
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Mr. Chairman and members of the Committee

I am appearing before you today to present and support the FY 1988 budget request for the National Oceanic and Atmospheric Administration (NOAA). NOAA is requesting total budget authority of $1,132,371,000, which includes $29 million proposed for later transmittal.

This request provides funding for essential ongoing programs and activities, and increases to continue high priority developments in the weather and satellite areas.

The request is consistent with the Administration's committment to reducing the Federal deficit and maintaining essential government services within fisheries, the environment, weather predictions, and ocean and atmospheric research. The budget also reflects the sharing of funding responsibilities for certain programs with the beneficiaries.

I would like at this point to run through the budget highlights by line office and subactivity:

NATIONAL OCEAN SERVICE

Mapping, Charting, and Geodesy has a proposed funding level of $45.1 million. This budget subactivity incorporates NOAA's work associated with the production and distribution of nautical and aeronautical charts and with the geodetic referencing system. An increase of $1 million is proposed for the development of an improved production capability for the Next Generation

Cartographic products. This modernization will be accomplished through the development of an Automated Nautical Charting System II (ANCS II) that will provide digital charting products. In FY 1988, NOAA will increase public chart prices by approximately $1.00 per chart to recover the requested budget authority. Under the terms of P.L. 99-272, NOAA is allowed to recover the costs of public data base maintenance, compilation, printing, and distribution.

Observation and Assessment has a proposed funding level of $22.2 million. This subactivity encompasses NOAA's work associated with providing technical products such as tide data surveys, charts to promote safe and efficient marine transportation, and coastal and offshore construction; providing information during the response to spills of oils and hazardous materials in order to minimize the adverse affects of marine pollution; and providing for the collection, analyses, modeling, and output of oceanic and related atmospheric observations.

Ocean and Coastal Management has a proposed funding level of $7.6 million. This subactivity includes NOAA's work associated with assisting coastal states and territories in implementing programs to promote the rational use of the Nation's coastal zone and designating and managing biologically valuable marine and estuarine areas. Because all states desiring to participate in the Coastal Zone Management (CZM) program have submitted and are implementing their plans, responsibility can now be transferred to the program beneficiaries. Federally approved coastal zone management programs have been instituted in 29 coastal states and territories covering over 94 percent of the U.S. coastline. No new funds are requested in FY 1988, and $36.7 million is proposed for rescission in FY 1987 -- $35.7 million in State Assistance Grants and $1 million in Interstate Grants. Funds are requested for research and protection of biologically important estuarine

areas as well as for evaluation of state CZM programs and monitoring of Federal activities to encourage consistency with State plans.

NATIONAL MARINE FISHERIES SERVICE

Information Collection and Analyses has a proposed funding level of $65.2 million. This budget subactivity provides for the collection, analysis and dissemination of biological, environmental, economic and statistical data on fish stocks, marine mammals, endangered species, and their habitats. The FY 1988 budget request for these activities will allow the National Marine Fisheries Service to provide scientific information to support fishery management plans, resolution of critical habitat issues, and management of marine mammal and endangered species.

Conservation and Management Operations has a proposed funding level of $30.5 million. This budget subactivity provides for the management of fish stocks, marine mammals and endangered species, enforcement of fishery laws and regulations, and the conservation of habitats. The FY 1988 budget request for these activities will allow the National Marine Fisheries Service to provide programs for those fish stocks, marine mammals and endangered species that require management; to enforce fishery laws and regulations; and to address critical habitat issues.

State and Industry Assistance Programs has a proposed funding level of $3.8 million. This budget subactivity provides for fisheries development and product quality and safety research. The FY 1988 budget request for these activities will allow the National Marine Fisheries Service to provide appropriate Federal industry assistance in the area of fish product quality, and safety research.

Federal Marine Fishing Fees/Additional Funding for Fisheries Programs

I would now like to address our proposal to establish a Marine Fisheries Conservation Assurance Program which would authorize a Federal marine fishing permit and stamp program. The receipts from the sale of these permits and stamps will support State and Federal fisheries conservation and management programs. We believe it is appropriate for the recreational and commercial resource users to contribute to partial support of these programs since they benefit from State and Federal conservation and management programs.

Our proposal this year is greatly different from the one discussed last year. The proposal is under review within the Administration, and the final structure may differ somewhat from the description that follows. We have attempted to balance the fee structure between the recreational and commercial fishing sectors by proposing a $6 marine fish conservation permit for anyone ages 16 to 64 fishing in marine waters; a $25 fish conservation stamp for sellers and buyers of marine fish for commercial purposes; a $25 marine stamp for anyone fishing for species designated as game fish under the Magnuson Act; and a fee of one percent of the ex-vessel value on the first sale or delivery of marine fish for commercial purposes. Our proposal will also allow States a greater share of the revenues if they adopt State measures to administer and enforce the permit and stamp program.

Upon enactment of legislation for a Marine Fishing Conservation Assurance Program, we will request a $29 million increase in the NMFS program level in anticipation of receiving revenues from license fees. This involves $26.4 million for additional information collection and analyses activities and $2.6 million for additional conservation and management activities.

OCEANIC AND ATMOSPHERIC RESEARCH

Climate and Air Quality Research has a proposed funding level of $34.2 million. This subactivity includes programs designed to develop a predictive capability for interannual and seasonal climate fluctuations over North America, and establish a critical observational data base and capability to analyze and predict changes in long-term climate and air quality due to natural and human causes. A key area of interannual and seasonal climate research is the international Tropical Oceans and Global Atmosphere (TOGA) program which investigates the air-sea interactions and ultimate climatic effects associated with the El Nino/Southern Oscillation (ENSO) phenomenon. This budget subactivity also includes coordinating activities of the National Climate Program office.

Atmospheric Programs has a proposed funding level of $37.7 million. This budget subactivity covers research activities aimed at providing the Nation with more timely and accurate forecasts and warnings of weather, especially severe storms; and solar disturbances and their effects on earth. OAR scientists focus on: (1) field programs, data analysis and integration, and modelling work to improve weather forecasts; and (2) developing improved capabilities to observe atmospheric conditions (for example, wind Profiler).

The Solar-Terrestrial Services and Research line item encompasses the provision of real-time monitoring and forecasts of solar disturbances (for example, solar flares) and technique development research designed to improve those forecasts. The President's budget for FY 1988 assumes recovery of $100 thousand in fees from users of services provided by the Space Environment Laboratory.

Ocean and Great Lakes Programs has a proposed funding level of $10.4 million. This subactivity represents NOAA's efforts to: better predict changes (both natural and man-made) in the oceanic and Great Lakes environment; ensure optimal use of those environments and their resources; and aid in the development and growth of marine industry. Under the Marine Prediction Research line item, NOAA supports both in-house and extramural research. This research is designed to: (1) develop a sound scientific basis for management, development and use of coastal, estuarine and Great Lakes waters (e.g., cycling fate and effect of nutrients and toxic contaminants); (2) prepare the United States to better use and develop the marine resources of the Exclusive Economic Zone (e.g., fisheries recruitment research); and (3) improve our ability to predict hazardous or special environment conditions like wind, waves and ice.

The Sea Grant goal of establishing a network of institutions with expertise in marine science, education and advisory services has been accomplished. Combined with a proposed rescission of $22.2 million of unobligated FY 1987 funds, an FY 1988 decrease of 28 positions and $16.8 million is proposed to terminate funding for the Program. Funding responsibility should now be transferred to the Program's principal beneficiaries -- state and local governments and the private sector. The Administration also requests that the National Undersea Research Program (NURP) be eliminated.

NATIONAL WEATHER SERVICE

Operations and Research has a proposed funding level of $274.3 million. This budget subactivity includes all activities of the National Weather Service in the provision of timely and accurate meteorological and hydrological forecasts and warnings.

During FY 1988, NOAA is proposing an increase of $2.5 million for an integrated demonstration of new weather technologies (NEXRAD, ASOS, AWIPS) in an operational environment.

Systems Acquisition has a proposed funding level of $86 million--a $28 million increase above the FY 1987 level. This budget subactivity is for acquisition and installation of new weather service technologies including the next generation weather radar (NEXRAD), the automated surface observations system (ASOS), and the advanced weather interactive processing system (AWIPS).

During FY 1988, NOAA is proposing an increase of $14 million for NEXRAD to complete limited production and initiate full-scale production of NEXRAD units, an increase of $3.2 million to produce the first ASOS units, and an increase of $10.8 million for continued system definition and development for AWIPS.

Fees for the NWS family of service products now received by private meteorologists at a nominal charge will be increased to recover a total of $1.1 million in FY 1988.

NATIONAL ENVIRONMENTAL SATELLITE, DATA, AND INFORMATION SERVICES

Satellite Observing Systems has a proposed funding level of $335.2 million. This budget subactivity covers the funding associated with 1) annual increments to procure spacecraft, launches, and associated ground system changes for the polar and geostationary orbiting environmental satellites (POES and GOES); 2) Federal subsidy to promote a commercial Landsat system that will enable the U.S. to continue its civilian land remote sensing capability; 3) operation of NOAA's polar and geostationary satellites; and 4) planning and initial development of an up-to-date system to format and distribute NOAA real-time data.

Environmental Data Management System has a proposed funding level of $24.2 million. This budget subactivity covers activities that relate to all NOAA programs that provide environmental data and information products, services, and assessments in the atmospheric, marine, solid earth, and solar-terrestrial sciences. The FY 1988 request continues to provide for global data and information for commerce, industry, agriculture, science and engineering, the general public, and Federal, state and local governments at the FY 1987 budget level. This request proposes to recover an additional $300 thousand of user fees from increased charges for data products and services.

PROGRAM SUPPORT

Executive Direction and Administration has a proposed funding level of $52.5 million. This budget subactivity incorporates NOAA's overall executive management, including all administrative support services, and retirement pay for commissioned officers of the NOAA Corps. The FY 1988 request supports this activity at the FY 1987 level.

Marine Services has a proposed funding level of $54.6 million. This budget subactivity covers all of NOAA's marine fleet operations. Decreases totalling $8.9 million consist of deactivating ships (-$7.2 million) and reducing days-at-sea (-$1.1 million) consistent with program plans; closing the Southeast Marine Support Facility (-$300 thousand); and reducing the fleet rehabilitation program (-$268 thousand). Contingent on the outcome of a study on the feasibility and potential savings of using commercial charter vessels for fisheries research, NOAA may use charter vessels for some fisheries research in FY 1988.

Aircraft Services has a proposed funding level of $6.4 million. This budget subactivity covers all of NOAA's aircraft support

services. An increase of $150 thousand is requested for replacement/repair of engine power sections for the specially equipped P-3 aircraft. An adjustment of $1.7 million is requested to restore the standard level of NOAA P-3 reconnaissance for near-shore, high density hurricane data. Hurricane reconnaissance flights farther out over the ocean will continue to be flown by the Air Force, and will be directly funded by the Department of Defense.

Thank you Mr. Chairman, I would be happy to address any questions which you or other members of the Committee might have regarding our budget request.

SPACE AND OCEAN PROGRAMS

Senator HOLLINGS. Mr. Calio, you touched on the scientific aspect.

Before we get into that, we tried to work a parity instituted on the entire program back in the early 1970s. The idea was to get us into the oceans. We put it in with the old Environmental Science Services Administration and the Weather Bureau, and we were working towards parity, and by 1980, we practically had that kind of parity, almost a 53–47 split with the 53 percent in the atmosphere and satellites and the 47 percent into the oceans and marine sciences and fisheries.

Now, after about 5 years there, we have gone backwards. You have got 76 percent in the weather bureau, atmosphere and satellites and 24 percent in analysis and on the outside. That particular breakdown was developed by the House Merchant Marine and Fisheries Committee.

We noticed you are moving out now of the Hoover Building all the way to Silver Spring when we are trying to upgrade the importance of the oceans and we get cutbacks, cutbacks, cutbacks in scientific programs.

You say that you are for science. Five times the amount of money is going into the National Science Foundation, and yet when you come to the scientific ends of the oceans we find you cut that back. That doesn't reconcile with your statement about, "We are interested in science." It just amounts to rhetoric when we get through with it.

How do you justify that?

Mr. CALIO. Mr. Chairman, I really don't think it is rhetoric, because of the question of how we look at the program and how the programs are split. You talk about when we began NOAA back in 1970, there was about a 50–50 split. I think back in that period of time, in 1970, when we look at the satellite component or contribution to our knowledge, it was mostly oriented towards the atmosphere.

I don't think that is true today. I think the scientific measurements that we are making from satellites, indeed, contribute significantly to oceanographic measurements and help to bring together many of the in situ or in place measurements made on shipboard and at various landbased operations.

If I were to structure how we split the NOAA budget today, I would guess it as 60–40. It is not 50–50, as you initiated in the 1980 time frame. But when I look at physical oceanography and chemical oceanography and how that contributes to how satellites have contributed to our understanding of the oceans and vice versa, I would say our split is about 40–60, 40 in ocean-related activities and about 60 in atmospheric.

I am not saying that that is absolutely where I would like to see it ultimately, but I would like to see it more where you are talking about, 50–50.

HOUSE REPORT

Senator HOLLINGS. Have you seen that House report?

Mr. CALIO. No, I have not seen that House report.

Senator HOLLINGS. They have got you 24–76 rather than 60–40.

Mr. CALIO. That is how they poll the satellites. Just bring out one simple measurement of sea surface temperature made from an atmospheric Met Sat. Sea surface temperatures are a very important product for fisheries, for understanding climate, for understanding the oceans' contribution to energy exchange between the oceans and the atmosphere, and they are a great aid in physical oceanography.

I will go back and look at the numbers. Let me just point out one other set of numbers. You mentioned that NSF was five times us. In the oceans communities, I think the NSF budget is about $150 million. If you add up our ocean activities, it is about $105 or $106 million. So it is not quite 5 to 1. It certainly is something like 3 to 2.

If I look at all of the money that goes into oceanographic research throughout the United States, including all the agencies, it is about a half a billion, of which NOAA contributes about 20 percent. I don't mean to be argumentative, but it is another way of looking at our current budget structure.

Senator HOLLINGS. Let me yield to Senator Weicker.

REDUCTION IN COASTAL, OCEAN AND FISHERIES PROGRAMS

Senator WEICKER. On the point that you were making, for 1988—and this is in my opening statement—the National Science Foundation proposes a 16.5 percent increase and NASA is proposing a $25 million increase for global change programs alone. The Navy has received over $30 million for research vessels in 1987.

Of course, your budget, your proposals are all too familiar to me. Ocean and environmental programs will be sacrificed for satellite programs.

You cut all the ones you have always cut in the past. Sea grant, national undersea research, coastal zone management, they are all under attack. I am terribly discouraged with this budget, but let me get to the specific questions.

CUTS FROM FISCAL YEAR 1987 APPROPRIATION

We have repeatedly restored important NOAA program funding and enhanced necessary activities over the past 6 years. As in previous years, this budget shows no reconciliation with what Congress eventually appropriated. As I mentioned in my statement, ocean, coastal and fisheries programs were reduced by 74 percent from fiscal year 1987 appropriations.

How do you explain this? Does anybody over at OMB or anybody within your Department reconcile what it is that Congress has said year after year and what it is you are once again presenting us with, a 74-percent cut in these programs?

Mr. CALIO. I think a majority of that is taken up in two or three major efforts, and you mentioned Coastal Zone Management, Sea Grant, and Under——

Senator WEICKER. Undersea Research.

Mr. CALIO. — Underwater Research activities.

STATES INVOLVEMENT IN COASTAL ZONE MANAGEMENT

On Coastal Zone Management, the administration continually comes back, and we, in turn, continue to come back and continue to say that this is a program that should be shared by the States at this point in time. We have gone back over that with you several times. I know you disagree with us, but that is the administration's point of view, that these, indeed, belong with the State and not with the national budget.

As far as Sea Grant is concerned, again, the argument there is one that you have heard several times: It has been reconciled, we have talked it out, and one more time, we are coming back to ask you to take a look at this again. Can this belong to the States, where the States seek their support from industry and provide their own support as opposed to going to the Federal Treasury?

Senator WEICKER. Why do we stop just there? How about if every State sends a satellite up into space? Let's have 50 states doing their own thing. I don't understand what this is.

SHARING OF SEA GRANT PROGRAM

Sea Grant, it seems to me, falls right in line with the philosophy of the administration, number one. It is basically a program run through the States. They have got great diversity, diversity in the sense of disciplines exercised.

It is a sharing proposition between the States and the Federal Government. Yet we all know that if there is going to be a focus on acquiring knowledge of the oceans, you can't have 50 people out there, in other words, doing their own thing. There has got to be some degree of centralization of the effort.

Mr. CALIO. We will, sir, and as a matter of fact, the guidelines that have been put together under the Coastal Zone Management Program is certainly that; they are national guidelines. We are not drawing back from that. We are saying now for States to promote those things in the

coastal zone that they feel are important, they should determine their own priorities and put that money for those things that they think are important.

Senator WEICKER. Hey, I think it is important for the Government of the United States to be the leader insofar as knowledge of the oceans is concerned, not North Dakota or South Carolina or Connecticut or California, but the United States.

Mr. CALIO. I don't disagree with that.

JENNINGS PANEL REPORT

Senator WEICKER. During last year's NOAA budget hearing, we inquired about the status of the Jennings panel report which was prepared at the request of the Administrator of the National Undersea Research Program.

In your response to that question, you stated, and I quote, "I expect a final report on their findings within the next few weeks. I anticipate that their report will play a role in the upcoming deliberations on our program plans and budget for fiscal year 1988 and beyond," end of quote. That is your statement.

It has now been a year since you told us the report would be available within the next few weeks. We are in the process of deliberations over the fiscal year 1988 budget in which this report was to have played a significant role.

It is my understanding the report recommended that NOAA provide national leadership in ocean research and budget additional funding in fiscal year 1988 for an undersea research program. Maybe you would like to, again, this year, Dr. Calio, give me a status of the report and when we will be able to see it.

If it is not going to be released, will you please explain why?

Mr. CALIO. The final report has finally come to me. It was being reviewed by the National Academy, and I believe it was getting support from the National Academy. We should be able to make that report available to you now. That is available at this point in time.

I will have to consider it in the fiscal year 1989 budget submission.

Senator WEICKER. What is the discrepancy between a few weeks and a year delay here? I mean, is this something that we shouldn't see, or maybe it is something that doesn't support the administration. Would it be more accurate to say it doesn't exactly support the budget that you are presenting to this committee?

Mr. CALIO. It is not consistent with the budget I am submitting to this committee.

Senator WEICKER. And this is your report, not Senator Hollings' report or Stevens' report or Weicker's report.

Mr. CALIO. It is my report, right.

Senator WEICKER. Your report.

Mr. CALIO. They did a study for me, yes, they did.

NOAA BUDGET REQUEST

Senator WEICKER. What was NOAA's budget request to the Department of Commerce and Commerce's request to OMB in fiscal year 1988?

Mr. CALIO. We requested $12.3 million for underwater research from the Department. The Department supported $6.9.

Senator WEICKER. Which would have been, your request was a 16 percent increase from fiscal year 1987; is that correct?

Mr. CALIO. That is right.

Senator WEICKER. The Department of Commerce requested $6.9. That would have been a 35 percent decrease?

Mr. CALIO. They pulled it back to where it is.

Senator WEICKER. A decrease. What did OMB do?

Mr. CALIO. Zero.

Senator WEICKER. Zero. Now you know how the underwater research programs are run in this country.

Senator HOLLINGS. Zero.

SUGGESTED ROLE OF NOAA AS INDEPENDENT AGENCY

Senator WEICKER. One last question here, and then I will get my thoughts together. I intend this year, after all the monkeying around that we have had here with NOAA, and especially the role of NOAA vis-a-vis being an independent agency, nothing really has been accomplished.

I intend to introduce legislation, freestanding legislation, regardless what happens to the Department of Commerce, freestanding legislation making NOAA a separate, independent agency. I think it is the only way we are going to get the focus on the oceans. I am convinced of that now. I have been absolutely, I have been going over in my mind again and again. Indeed, I was in San Francisco last week, and I had a long chat with Silvia Earle. I thought, "What in God's name can we do to have the importance of the oceans brought to the attention of the American people."

I said, "Fritz Hollings, Ted Stevens and a few of us have carried these thing on our shoulders, quite frankly, admittedly without great popular demand for support." Somehow, we have got to get the nation involved. I think really, the first step to that is that NOAA should be an independent agency.

I would like to have your very brief comments. Obviously, I don't want to take the time of the committee here, but I would like to catch your reaction to that.

Mr. CALIO. Well, my only response to that is there is certainly no thought currently within the administration at this point in time to make NOAA a separate agency. I would have to pretty much support my Secretary and the administration as to what they decided to do in response to your view about making NOAA an independent agency.

Senator WEICKER. There hasn't been any discussion insofar as a reorganization of Commerce and how that would affect NOAA?

Mr. CALIO. No, sir.

Senator WEICKER. Well, the answer is, I do intend to submit that legislation very shortly, and I will seek the view of you and the Secretary of Commerce on it. It seems to me under those auspices, we will finally get the kind of attention paid to the variety of tasks that confront NOAA.

Basically, this gets back to what Senator Hollings was saying. You fellows have basically become a service and hardware agency. You have not really become a science agency, and that is what really was intended.

I recognize the importance of the atmospheric research that goes on, and that should continue. There is no reason why it shouldn't, but I don't see how much is being accomplished at your present pace in the table of organization.

Mr. CALIO. Sir, I really don't want to disagree with you and become argumentative, but I don't think that statement is correct.

From a marine science standpoint, we probably have not done as much as this committee has desired. But from the physical oceanography and chemical oceanography standpoint, we make a very valuable contribution to the science and research in as far as climate research is concerned.

Senator WEICKER. Tony, I don't want to get in an argument with you, but all you have to do is take a look at what it is that the administration wants to knock out, Underwater Research, Sea Grant, Coastal Zone. I mean, I go right down the whole list. It isn't a question of, we are not going to get into a philosophical debate. The budget figures tell the whole story, even to the point where OMB wants to zero out any underwater research.

I am not laying that at your doorstep. Your budget request was for increased funding, so this is not a personal remark to you, but I think the OMB reaction tries to mirror, really, the situation insofar as our national priorities, and they figure we can get away with this, nobody is going to speak up for it, et cetera, et cetera, et cetera.

Mr. CALIO. But what you are saying has an effect outside in the oceanographic community, and I find it extremely difficult, because statements are made, sir, that we aren't holding our own in marine sciences. That may be true as far as biological marine sciences are concerned, but I don't think that is true with physical and chemical oceanography.

I think we are holding our own in the scientific community, and I think we are contributing valuable research, information, data, and model development that are extremely important, especially now when we look at global climate change and the effects that may have on the economy and the development of the world.

ELIMINATION OF SEA GRANT PROGRAM

Senator WEICKER. How do you think the scientific community looks at the knocking out of the Sea Grant Program? I have got news for you, the scientific community has been very antsy. Let's not kid ourselves how they view this administration and NOAA.

Mr. CALIO. I understand. I understand. But I am saying that statements like that don't help us one bit, sir, excuse me.

Senator WEICKER. Because the scientific community knows that Hollings and Stevens and Weicker here are not going to let it happen.

Mr. CALIO. I understand. I understand. I am not debating that issue.

Senator WEICKER. All right.

Senator HOLLINGS. The statement helps nor hurts. I think the truth in this administration would be a tremendous help. They seem to have Mark Twain's observations: "Truth is such a precious thing, it should be used very sparingly." If we can get the truth out on these things, we can understand it.

That is all cover talk about what you are doing. You are cutting, you are cutting, you are cutting. You are going out of business; then to say, "Look at what wonders we are accomplishing."

Are you okay?

Senator WEICKER. I am fine. I have further questions for submission to the record.

LETTER FROM SENATOR WILLIAM V. ROTH, JR.

Senator HOLLINGS. While we were discussing Sea Grant and Coastal Zone Management, I will insert a letter in the record from Senator Roth. Senator Roth says: Although I feel a strong need to curtail spending, I cannot support the elimination of programs that are an investment in the future.

Mr. Calio, that just underscores the point that Congress is strong for these programs and is not going to curtail them or eliminate them.

Senator Roth's letter will be printed in the record.

[The letter follows:]

FEBRUARY 27, 1987.

Senator ERNEST F. HOLLINGS,
Chairman, Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies, Committee on Appropriations, United States Senate, Washington, DC.

DEAR FRITZ: You will be holding hearings shortly on the President's fiscal year 1988 budget request. There are several issues which concern me and all Delawareans that I wish to bring to your attention.

The President's FY 1988 budget proposal requests no funding for the Coastal Zone Management and Sea Grant programs. In addition it proposes a rescission for these programs in 1987. Such actions would severely hinder the comprehensive activities that encompass these programs. Although I feel a strong need to curtail spending, I cannot support the elimination of programs that are an investment in the future.

I would appreciate it if you would give this request every consideration possible, and I look forward to address this with you.

With my best regards,

Sincerely,

WILLIAM V. ROTH, JR.
U.S. Senator.

FISHERIES

Senator HOLLINGS. Senator Stevens is going into the fisheries. I am sure you cut that $70 million. Go ahead.

Senator STEVENS. I understand we have got some changes to make, and I remember in the days of Harry Truman a request for Presidents to reduce the Public Law 874 money, and Congress has already restored it. I don't think we have to spend too much time on what we are going to do about restoring it.

Mr. Chairman, there are some real positive things going on. I just got a report back from a meeting with the Under Secretary these people have had with the Regional Fisheries Councils in Puerto Rico. The report is very, very laudatory in terms of relationship or reorganization down at Commerce with the Regional Fisheries Councils.

I have got a real thing for the appropriation for the International Whaling Commission Conference, and people on the West Coast, as well as ourselves, people are very pleased with that preparation now for the new meeting taking place this year.

I want to report that my fishing fleets in Alaska tell me that their efficiency has been improved to the point where it is almost staggering now. The new data that is available from NOAA, both in terms of temperature and specific and accurate predictions of the wind and sea conditions, the Congress realizes or not, we went down now from foreign fishing catches in the the North Sea. It used to be 2.3 million metric tons, roughly 5 million pounds a year. Is down now to, what is it, Tony, 700,000 pounds?

Mr. CALIO. Directed foreign fishing?

Senator STEVENS. Yes.

Mr. CALIO. It is even lower than that. We estimate this year, 100,000 tons.

Senator STEVENS. Before we passed the bill, it was over 5 million pounds a year being caught by foreign fishing fleets. Now they are going to catch less than 100,000 pounds. That comes about because of the changes that have been made. I really think we ought to think about those things. Congress has a great deal to do with that through the passing of the Magnuson Act. These people have implemented it. I think that is a real success story.

PLASTIC POLLUTION IN NORTH PACIFIC

I have one real great problem, Mr. Chairman, and it is on the other hat in terms of the Commerce Committee, but studies show us now that the plastic pollution in the North Pacific may well choke off all of this success.

We now have more than 15,000 or 10,000 what do they figure, 10,000 plastic nets that have been cut adrift in the foreign fishing fleets on the high seas. They are enormous. That is 15 to 20 miles long and they continue to fish and drift. They are cross nets and they have a strong tow in the system because of its basin concept, that is a closed sea, really.

I am really worried that there is not enough emphasis being placed upon what is happening there. Those nets could reverse all the progress we have made in the last 15 years in terms of harvesting the tremendous protein base of the North Pacific if we can't find some way to get rid of those plastic nets.

Have you got any comments about what you are going to try to do with this budget to deal with this problem? Do we have to have the legislation I have passed to give you some authority to do something about those nets?

Mr. CALIO. I think so. We have done as much as we can do without the legislation. As you know, we have taken it to the international community, as well. We have introduced it to MARPOL. We have got the IMO taking on major actions internationally. But we nationally are not settling up to our responsibility there.

I think your drift net legislation would go a long way in bringing the emphasis to the direction.

Senator STEVENS. This is one of the strangest things I have found in the general international fisheries agreements. We put these foreign nations on notice that we are going to reduce our bounds to a 2½-mile limit to protect our fisheries, and yet our national law doesn't give us that authority.

The foreign nations agree we can do it, but we have not yet given our national people the power to exert that beyond that 2½-mile limit. I will talk more to my friends about that.

I congratulate you on the work you are doing with the fisheries. I can remember the day when this room would have been filled with fisheries people protesting one thing or another. Your relationship with the fisheries people on the West Coast, particularly Alaska, couldn't be better. I congratulate you.

Mr. CALIO. Thank you.

LETTER FROM SENATORS SARBANES AND MIKULSKI

Senator HOLLINGS. The subcommittee has received a letter from Senators Sarbanes and Mikulski with regard to oyster reseeding funds that we included in the Continuing Resolution last year. The letter will be printed in the record.

[The letter follows:]

MARCH 10, 1987.

The Honorable ERNEST F. HOLLINGS,
Chairman, Subcommittee on Commerce, Justice, State and the Judiciary, Committee on Appropriations, United States Senate, Washington, DC.

DEAR MR. CHAIRMAN: We are writing to express our concern about recent actions by the National Oceanic and Atmospheric Administration [NOAA] with respect to oyster reseeding funds for the State of Maryland which were contained in the FY 1987 Continuing Resolution.

The FY 1987 Continuing Resolution contained $2 million for use by the States of Maryland and Delaware for reseeding oyster beds that were severely damaged in the Chesapeake and Delaware Bays. These monies were allocated under authority from section 4(b) of the Commercial Fisheries Research and Development Act.

The Conference Report contained no explicit reference to exclusive use by Maryland and Delaware. Nevertheless, these were the only two states to request such action

during the FY '87 appropriations cycle and the only two states whose Congressional delegations sought such funds last year.

Since the beginning of FY 1987, the Northeastern Regional office of the National Marine Fisheries Service has decided to reinterpret Congressional intent with respect to allocating these funds. They plan to allocate some of the FY '87 funds to states who have just recently sought them, despite the fact that Congress did not intend this. In addition, these other states did not request any funds during last year's appropriations process.

Mr. Chairman, we fully understand the problems which the oyster industry in a number of East Coast states faces. However, we believe Maryland's needs are most compelling, particularly in light of continued low oyster harvests in the State since the beginning of FY 1987.

If there are new states which need help since passage of the Continuing Resolution, then NOAA ought to make a request for a supplemental appropriation to assist them. Maryland's oyster industry continues to suffer severely and should not be penalized because of these new requests.

We understand that NOAA's Administrator will be testifying before your Subcommittee in the near future. We ask your assistance in bringing this issue to his attention and conveying our concerns to him.

Sincerely,

PAUL S. SARBANES,
BARBARA A. MIKULSKI,
United States Senators.

STATE FUNDING

Senator HOLLINGS. Senators Sarbanes and Mikulski make the point that while the Conference Report on the Continuing Resolution contained no explicit reference to exclusive use by Maryland and Delaware of the $2,000,000 we appropriated, they were the only two States whose congressional delegations sought such funds last year. They say that the Northeastern Regional Office of the National Marine Fisheries Service is planning to allocate some of the funds to States who have just recently sought them.

Mr. Calio, it does seem like dirty pool to have two States make the pitch for their own needs, and then have the program opened up to others so that the amounts going to the original sponsors is diluted. They have asked me to use this opportunity to bring this issue to your attention and to convey their concerns. Please respond by a letter to the Subcommittee at the earliest possible date.

SANDY HOOK LABORATORIES

Senator HOLLINGS. Senator Lautenberg?

Senator LAUTENBERG. Thank you, Mr. Chairman.

Welcome, Mr. Calio. Good to see you. We have several subjects of common interest, as you know.

In the past, we have discussed the fate of the Sandy Hook Laboratories. I still have an interest, as you can understand. I feel that the lab ought to remain in New Jersey, as you know, and I would like to briefly discuss the status of that matter with you.

The Lab is functioning presently at Sandy Hook; is that correct?

Mr. CALIO. That is correct, but not in the best of conditions.

Senator LAUTENBERG. Not in the best of conditions, at all. Considerable expertise among that staff still exists. That is not an easy resource to replace.

If the Lab were moved out of New Jersey, there is a good chance that some of those people would not or could not relocate. If that is the case, does that represent a significant cost to the Federal Government, in your judgment, the loss of that talent, the loss of that station?

Mr. CALIO. The loss of that talent, yes, it does.

Senator LAUTENBERG. Your agency has been pursuing options for rebuilding this lab for sometime. What is the status of that?

Mr. CALIO. We haven't received any sound, firm proposals from anybody at the present time. We did not receive preliminary expressions of intent from Rutgers, Rhode Island and Delaware. We are about to receive a revised proposal from Rhode Island. It looks like it might be a reasonable offer.

Senator LAUTENBERG. Restate it so I am clear on the record. You say you have received proposals from?

Mr. CALIO. We have not received any detailed proposals from Delaware, Rhode Island or New Jersey.

Senator LAUTENBERG. You have not received an acceptable offer. You have received offers, but they——

Mr. CALIO. Yes, and they were fairly non-committal as to what the relationship would be between the university and our fisheries people, to the best of my knowledge.

Senator LAUTENBERG. Are you talking specifically about financial relationship? Are you talking about the functioning? Are you talking about the goals and objectives?

Mr. CALIO. Financial relationships and the functioning of the laboratory.

Senator LAUTENBERG. Do you remember when you got the proposals?

Mr. CALIO. I would have to place it sometime—I can get that for the record.

Senator LAUTENBERG. Is there anybody back there who knows in your office?

Mr. CALIO. I don't think so. I will have to get that for the record for you. I don't have that specifically. We can give you an answer.

Senator LAUTENBERG. It has been there since sometime last June, or in the last year, to the best of your recollection?

Mr. CALIO. We have had dialogue with those, both Delaware and New Jersey.

Senator LAUTENBERG. On-going?

Mr. CALIO. Sporadic, yes.

Senator LAUTENBERG. Sporadic. Even though there has been effectively a kind of negotiation or a pattern, a pattern for discussion——

Mr. CALIO. Discussion.

Senator LAUTENBERG [continuing]. We have still not been able to get an acceptable proposal.

Mr. CALIO. Correct.

Senator LAUTENBERG. Can you do this for me, please? Have your staff send over to me what they see as the shortfall. You don't have to design the program, but at least tell me why you consider it unacceptable and the chronology, when received, when reviewed. I would appreciate that.

The lab work there, obviously, is vital to our region, the Middle Atlantic region, and the loss of that would mean the end of significant research in the New York basin, in particular. With our other regional concerns, I hope that you will be able to start to at least lay out conditions with which decision-making is going to take place.

Mr. CALIO. We must do something with this within the next few months, because it is getting to be a very bad situation for those employees.

[The information follows:]

CHRONOLOGY OF EVENTS REGARDING NMFS LABORATORY AT SANDY HOOK, NEW JERSEY

9/21/85 Fire destroys major building at NMFS Laboratory at Sandy Hook, New Jersey.

10/4/85 Preliminary letter of interest in replacing Sandy Hook Laboratory at University of Delaware Lewes Campus, from President Trabant to Assistant Administrator Gordon.

—1/22/86: Additional follow-up letter from President Trabant to Rich ard Gardner at NOAA with some cost figures based upon Delaware assumptions of NOAA needs.

12/10/85 Preliminary letters of interest offering use of facilities and Laboratory replacement on Rutgers campus from Executive Vice-President Pond to Administrator Calio, following up on 11/26/85 meeting in Washington.

12/10/85 Preliminary letter of interest in replacing Sandy Hook Laboratory at University of Rhode Island Narragansett Campus from Vice-President Knauss to Administrator Calio.

—Additional preliminary letter sent 3/20/86.

2/1/86 Required report submitted to Congress on Sandy Hook Laboratory situation, indicating insufficient data available on which to make decision on future of laboratory. As an interim measure some scientific work will proceed in trailers.

2/14/86 NOAA Administrator Calio meets with Senator Lautenberg in Newark, New Jersey. Calio meets with Representative Howard and officials from State of New Jersey, Rutgers, National Park Service and NMFS at Sandy Hook Laboratory. It was agreed that NOAA would work with New Jersey officials in their preparation of a detailed proposal for replacement of the Laboratory. Offer also to be extended to Rhode Island and Delaware.

4/4/86 Preliminary letter of interest reiterating Rutgers offer of use of existing facilities and proposing replacement of Sandy Hook Laboratory at Belford, New Jersey, from New Jersey Fisheries Development Commission Executive Director George Grant to Administrator Calio.

5/20/86 Letters from Richard Gardner of NOAA to URI Vice-President Knauss, NJFDC Executive Director Grant, and University of Delaware President Trabant, enclosing detailed requirements for the replacement of Sandy Hook Laboratory, to be used in preparing detailed proposals.

3/5/87 Letter from NJFDC Executive Director George Grant to Administrator Calio, attaching a letter from Rutgers Executive Vice-President Pond (re-offering to have NMFS Laboratory at Oxford, Maryland relocated to Rutgers' facilities), and indicating progress in preparing a New Jersey proposal to replace the Sandy Hook Laboratory.

As of
3/23/87 No detailed proposals received.

LANDSAT

Senator LAUTENBERG. I don't know whether you have discussed Landsat.

Senator HOLLINGS. No. Why don't you go right ahead, because we have got that proposal. Am I correct—if the Senator would yield.

Senator LAUTENBERG. Yes.

Senator HOLLINGS. This is the language which the House subcommittee approved yesterday: the sum of $62,500,000 which is derived from $27,500,000 appropriated pursuant to Public Law 99–591 for commercialization of the Land Remote Sensing Satellite System and $35 million appropriated pursuant to the same law for the Polar Orbiting Satellite System and thereby reprogrammed for a two spacecraft Land Remote Sensing Satellite System under a plan which provides for the cost of the second satellite from funds from users or other sources other than funds from the National Oceanic and Atmospheric Administration, the release of such funds subject to the funding plan approved by the House and Senate Committees on Appropriations.

That is the background on that. You go ahead and put the question to him.

Senator LAUTENBERG. Just in summary fashion, tell me, where does that leave us in terms of the commitment to the Landsat satellites?

Mr. CALIO. It says to find it from some other source.

Senator LAUTENBERG. Correct. That was objected to, as I understand it, Mr. Chairman, by yourself and, I think——

Senator HOLLINGS. No. We are objecting to taking it from NOAA. This is the language from the House.

Senator LAUTENBERG. Okay.

Senator HOLLINGS. Adopted by the House subcommittee yesterday.

Senator LAUTENBERG. Okay. But we are not satisfied to see it reprogrammed from other programs. Did they mention where this funding is coming from?

Senator HOLLINGS. No; that is what I want to know.

Senator LAUTENBERG. Yes.

Mr. CALIO. Well, let me back up a minute. Senator Lautenberg, you made reference to a letter I received from this committee. The letter I received from this committee was in response to a formal request that we had made to the committee to reprogram funds in support of a single polar orbiting Landsat. That was rejected by this committee, because this was not within the spirit of the Landsat Act, and we were recommended to look at that.

We were also advised that we didn't see how, your committee didn't see how we were going to find the money within the NOAA budget. I think I was admonished about that in your letter, as well.

That was the content, though, of this committee's response to our request. Since that time, the House has acted, I guess it was yesterday, on the supplemental, which says again that we should go to a two-satellite system with the remainder of the funds to be found from other sources.

That is unclear to me, because before we submitted the proposal, the first proposal to the Congress, I had worked diligently with members of the Defense Department to try to find financial support for that budget before we ever submitted it.

I had worked both with the Air Force and the intelligence community to try to find that support. It was taken, I understand, to the Secretary of Defense, and his conclusion—I got this second-hand; I don't know first-hand—was that this was a civil program; it was the Department of Commerce's responsibility; and the Department of Commerce should pay for it; if there is any need from the standpoint of defense, that they would pay for whatever products they received from the system.

So I will go back to the Department of Defense after getting this position by the House Appropriations Committee and will try to work it again. But I don't know quite how to resubmit a plan back to the Congress unless the Department of Defense has different views than it expressed to me a few months ago.

SATELLITE GROUND STATION

Senator LAUTENBERG. A plan has been submitted to OMB calling for two spacecrafts.

Mr. CALIO. Just recently.

Senator LAUTENBERG. Ground stations.

Mr. CALIO. Just recently. The price tag is just shy of $300 million.

Senator LAUTENBERG. For just the satellites and the ground station is $296 million; is that correct?

Mr. CALIO. Yes, sir. There are launch vehicles that go along with that.

Senator LAUTENBERG. Just shy of $300 million. Is that, to your knowledge, a serious proposal? Where is this funding going to come from?

Mr. CALIO. I have to add the launch vehicles to that so that the total cost of the program would be about $367 million, as we know it right now.

Our proposal that was submitted to the Congress earlier in the President's budget submission was for $259 million. Therefore, we are short about $107 million.

We do not have that money within the NOAA budget currently. We do not have it within the Department of Commerce budget. We did everything we possibly could, as could be attested by the statements by your colleagues, to find that money within the NOAA budget, and it was impossible to find any more. I don't know where I could find another penny to put in Landsat.

Senator LAUTENBERG. Tony, the question that is raised here, then, is this: There is a rush to submit a proposal; it doesn't, certainly, have a lot of good prospect for completion or for development. Knowing this, have we just gotten ourselves closer to the brink of disaster with this?

The letter that was sent to OMB by Commerce agrees with the Congress' collusion that the first plan would not result in commercialization.

Mr. CALIO. The one-satellite system?

Senator LAUTENBERG. Yes. So where are we on this thing? Are we kind of just keeping—I don't want to use the expression—the balloon afloat while we are letting time pass here, or are we going to get on with this in serious fashion and try to solve the problem in a meaningful way?

Mr. CALIO. The two-satellite proposal that the Department submitted to the Office of Management and Budget this past week was an EOSAT proposal for a two-Tiros–N spacecraft. That was a submission by EOSAT to us.

It was a different proposal than we submitted to OMB last fall. We submitted a proposal to OMB last fall that was one Tiros–N in and one Omnistar platform, also submitted to us by EOSAT. So you essentially have three concepts on the table, a single Tiros–N, two Tiros–N's, or a Tiros–N and a so-called Omnistar platform.

The two Tiros–N's proposal is equivalent to the original contract that we signed with EOSAT. It has a chance for commercialization.

The other proposal, the Tiros–N and the Omnistar, has a greater chance, as best as we know, for commercialization because of the flexibility associated with that second spacecraft, the growth capability and the competitiveness it may be able to provide with such countries like France and Japan.

The difficulty is that there are some added risks associated with the second concept. It is dependent on being launched by the Shuttle; it is dependent on being serviced by the Shuttle; and it is unclear to us at this time when the Shuttle—and I am not throwing rocks at my associates at NASA—but it is unclear at this time when the Shuttle would be available to launch this spacecraft and to service it. It is also unclear when the Western Test Range, which is required for this operation, would be in place and operating because this program calls for that satellite to be launched around the 1992 to 1993 time frame and be serviced around the 1995 to 1996 time frame.

Those are very difficult dates to secure at this point in time with the recovery of the Shuttle program. So it has a lot of high risks. If we were to launch that Omnistar spacecraft with an expendable launch vehicle, the costs would be tremendously high, higher than $35 million. We currently are looking at that cost with respect to the Titan Type II launch. That would probably be on the order of $200 to $250 million versus $35.

So there are a great deal more risks associated with what might be considered a more viable approach to commercialization. So that moves you back to where we are right now, to the program we had originally contracted to do.

Senator LAUTENBERG. So we ought to go back there.

Mr. CALIO. OMB has not reviewed that proposal yet, but is currently looking at it. Again, they are not finished.

Or we maybe should walk away from the whole issue.

Senator LAUTENBERG. I don't know. I think we almost need a translator. I can see Senator Hollings in his best Southernese encrypting what you just said into, "What did he say?" or something like that.

The fact of the matter is that there is an interruption in the program that is important for us and, I think, central. We are skirting the issue by throwing up trial balloons that just are not going to work.

Mr. CALIO. I am sorry. I don't understand that statement, Senator.

PROGRAM WITH EOSAT

Senator LAUTENBERG. We have a program; we had an arrangement reportedly with EOSAT, right?

Mr. CALIO. Right.

Senator LAUTENBERG. That is not being funded.

Mr. CALIO. The original program; if the one that is before OMB right now is approved, that is the original program.

Senator LAUTENBERG. What is the likelihood of that approval?

Mr. CALIO. I haven't the slightest idea at this point in time. That is up to OMB.

Senator LAUTENBERG. Mr. Chairman, just a couple of more minutes, if I might. I want to deal with something that is clear, and we will continue our dialogue on the Landsat issue with written questions and your response personally.

FEDERAL FISHING LICENSE

Federal fishing license. You tried last year without success, and I would like to commend your perseverance, because I think you worked hard on the attempt, but I don't see that you succeeded.

As is the case with last year, this proposal would impose a Federal fee on people who want to fish in marine waters, whether it is from the end of a pier or a charter boat or miles offshore.

The revenue generated from this proposal would not go toward enhancement of fisheries but toward the reduction in debt. Imagine every time you go out to fish, you are going to—not every time, but every season you start, you are going to put, what is it, ten bucks?

Ms. CHARLES. Six.

Senator LAUTENBERG. Six, and then we will cut the budget down to zero. Is that going to make the program more tolerable this year, the fee reduction?

Mr. CALIO. No, as part of it, as a matter of fact, this program was structured similar to the way the Coastal Zone Management program is structured, basically station-to-station. Whatever revenues we collect within the operation of the States, the States would get half of it to do with as they wish. So it is not just that.

Senator LAUTENBERG. So we try to seduce them into the program.

Mr. CALIO. That is part of it.

Senator LAUTENBERG. That is not a very seductive offer. I just don't think it is fair to burden our fishermen, who already pay taxes into the Wallop-Breaux fund, the Saltonstall-Kennedy fund, with another tax, and this one doesn't even get them a return.

I proposed a proposal last year. It has not become more attractive this year, and I introduced a proposal last year with the distinguished chairman of this subcommittee disapproving a Federal license, and I intend to strike a similar resolution later this week. I hope you will take the message back to OMB. It is a bad idea. We are going to try to "deep six" this thing again. Thank you, Mr. Chairman.

Senator HOLLINGS. Thank you. You want to go along with the deep six, I am sure. You can't take the kids out there walking on the beach and say, "Oh, my God, you need a Federal license."

Senator LAUTENBERG. You will need Federal Marshals out there.

LAID UP SHIPS

Senator HOLLINGS. This is the result of lunacy. The ships that we have laid up, why are you studying? You determine you are going to lay them up, and then why do you study why you lay them up?

In other words, you have got 23 ships, I think, in NOAA. You have nine of them laid up at the present time. You are going to lay up some more. We are going out of business. But then you want to study why we went out of business. You want to institute a study, you want to study the budget to lay them up.

Mr. CALIO. Some of them, yes.

Senator HOLLINGS. I am not talking about the amount right now. You have got in the budget you are going to lay up eight more. You have got nine docked, anchored.

Mr. CALIO. Right now, we have got 21 in service.

Senator HOLLINGS. How many have you got right now inactive?

Mr. CALIO. Two.

Senator HOLLINGS. Only two?

Mr. CALIO. Yes, sir; right this minute, only two. We are proposing nine in the 1988 budget.

Senator HOLLINGS. You are proposing nine. I have got my figures wrong then. If you are going to lay up the nine ships, what are you studying?

Mr. CALIO. How effective it is to lay up and how effective it is to find other resources to get that data; is there a more efficient way to do it than by operating our own ships.

Senator HOLLINGS. A more efficient way to lay them up?

Mr. CALIO. No, like chartering for some of the fisheries activities, because one of the arguments that has been made is that we can operate collectinge data for fisheries by the use of charter vessels cheaper than we can do it using a NOAA vessel.

Senator WEICKER. Can you?

Mr. CALIO. That is one of the things to study.

Senator WEICKER. Why do you have your request to lay them up?

Mr. CALIO. It depends where they are and what the condition of the fishery is at that particular point in time.

Senator WEICKER. Haven't you made the decision to lay them up?

Mr. CALIO. That is correct.

Senator WEICKER. Now you want to do a survey on why you want to lay them up?

Mr. CALIO. If we can be more effective, we will suggest laying more up and use the money for chartering.

Senator WEICKER. Don't you think it would be a little more logical if you had a request before us for a survey on what you should do with your ships? I think we all understand that. Instead, you have a request for a survey to find out why you laid them up.

Senator HOLLINGS. You have this thing where who is on first and who is on second.

This is a wonderful hearing. I hope you have gotten all this down.

[Laughter.]

Senator WEICKER. Kasten is still trying to figure out how he is going to run this fishing license.

Senator KASTEN. With a fishing license, right.

Senator HOLLINGS. I should yield.

Go ahead, Senator Kasten. I am sorry.

Senator KASTEN. Mr. Chairman, thank you.

NOAA ACTIVITY IN GREAT LAKES RESEARCH OFFICE

In Section 104 of the Clean Water Act, we have authorized NOAA to be the lead agency in the Great Lakes for environmental research. What has NOAA done so far to establish the Great Lakes Research Office?

Mr. CALIO. We are working with the EPA right now, as you know, on that bill. That money is pass-through EPA money. We are working with EPA, and our research and development people.

Senator KASTEN. I have got another question on the money, but you are the lead agency; is that right?

Mr. CALIO. Yes.

Senator KASTEN. What preliminary work have you done with the NOAA's structure to put together this office?

Mr. CALIO. May I call on Allan Thomas, who is the deputy head of our research organization?

Mr. THOMAS. We have done some preliminary analysis of what is going to be required. We have had some discussion with people in the Great Lakes region, and we are trying to sort out how best to implement the various functions.

Senator KASTEN. Can you give me, Tony, an approximate calendar, a time table? What can we expect by May 1; what could we expect by July 4? What is your time table here so we can measure how successful you are in terms of getting where you want to go.

Mr. CALIO. Your colleague just worked me over on schedules. I am not sure. We can give you a number.

This July?

Mr. THOMAS. Something like that.

Mr. CALIO. July, sir.

Senator KASTEN. I don't want a number; I want a date.

Mr. CALIO. July.

Senator KASTEN. What will happen then?

Mr. CALIO. We will make a decision on where we will go.

Senator KASTEN. You will have a location. The legislation provides by the end of the fiscal year, NOAA and EPA will identify a research plan identifying the environmental and research needs to provide for the environmental priority of the Lakes.

What have you done to prepare that report?

Mr. THOMAS. We have talked with EPA on this. There has been some preliminary work amongst some of the groups in the past at an informal level, so we plan on building on that, and that includes not only EPA, but some of the other institutes on the Lakes like the Great Lakes Fisheries Laboratory.

TALKS WITH EPA

Senator KASTEN. Can you be more specific? You have had some talks, some informal talks with EPA?

Mr. THOMAS. Right, and we will have a little more formal correspondence on some of the issues and are setting up a working group.

Senator KASTEN. The legislation provides that before the start of the new fiscal year, that you have prepared a research plan identifying the priority environmental research needs. That will be done before the start of the new fiscal year?

Mr. THOMAS. We will, in our discussions.

Senator KASTEN. That is what the legislation says that you should do.

Mr. THOMAS. In our discussions with EPA, we believe that we can put together a plan that would be available, at least in draft form.

Senator KASTEN. That doesn't meet the legislative requirement.

Mr. THOMAS. We are going to try to get that plan done.

Senator KASTEN. Tony, let me just ask you a question on the dollars. Basically, there has been $11 million given to EPA. Thirty percent of that money is supposed to be the pass-through, that you referred to in the beginning, in your answer to my first question.

EPA has not. EPA had the additional money, but evidently, the money has not been passed through. Is that wrong?

Mr. CALIO. It is my understanding——

Senator KASTEN. The gentlemen behind you is saying something.

Mr. CALIO. The money has not been appropriated yet. Let me ask the others.

Mr. BROWN. My understanding from OMB is that EPA will be requesting a supplemental.

Senator KASTEN. Part of it has.

Mr. BROWN. In about a month or 6 weeks.

Mr. CALIO. But there is no money right now.

Mr. BROWN. There is no money right now. I was told that by OMB.

Senator KASTEN. Our understanding is that part of the money has been, in fact, appropriated. But, Mr. Chairman, rather than pursuing

this, we have got an important interest in this whole area and, frankly, a great concern that so much of your resources is going to the East Coast and the West Coast and a very limited amount of NOAA resources are going to the Great Lakes.

We have been working with you and some of your people, but up until now, I think we have been kind of talking at each other. I would like to follow up with you and the gentleman behind you and others as we try to: Number one, meet the legislative deadline; and number two, proceed with this office.

Thank you, Mr. Chairman.

RISING WATER LEVELS IN GREAT LAKES

Senator HOLLINGS. Let me get myself clear, Mr. Calio.

As I understand it now, and of course, the State Department with the Joint Commission in the United States is very concerned about the rising Great Lakes water level, and they are asking for a supplemental of $600,000 pending to study it, and the Commission says NOAA has contributed the personnel and other resources.

That is something you could be asking for instead of that study on how to dock a ship. But instead of going along with that study, NOAA under the marine predicted research, has a decrease of $1,100,000 in support of the Great Lakes Environmental Research Laboratory.

Where we should be studying, we are cutting, and where we don't need the study because you are going to lay the ships up, we are going to lay them up and then study them.

Is that right?

Mr. CALIO. That is right. I am trying to figure out how to respond to that the way you phrased the question. We are actively participating in the water level measurements.

Senator HOLLINGS. You are?

Mr. CALIO. Yes, sir, we are.

Senator HOLLINGS. You are in step with that $600,000 supplemental?

Mr. CALIO. I don't know about the $600,000, but we are providing very valuable information about water levels in the Great Lakes. We have monitoring stations there that were originally put in place by the Corps which we now operate, some 40 stations or water level measurement devices throughout the Lakes. We monitor those, and we provide that information.

Senator HOLLINGS. But you provided in this budget request a $1,100,000 cut.

Mr. CALIO. I understand, but we are still providing that data to the people in the Great Lakes with the existing money remaining within the Great Lakes effort.

LANDSAT PROGRAM

Senator HOLLINGS. All right, sir. Let me ask with respect to that Landsat, because I don't think it is a question just about the money. Don't you rather agree with Defense that this is a civilian project and should not be in Defense; isn't that correct?

Mr. CALIO. Yes, sir.

Senator HOLLINGS. I have to agree with Defense, too. I think we ought to finally put it in the budget. I think it is bad form, amongst other things, to chase you over to beg at the Defense program for your own programs.

Mr. CALIO. I have never been there. I tried to work that out.

Senator HOLLINGS. Yes. I mean, I am for Defense and this program, too. It is legitimate and what-have-you. At least we have gotten everyone to agree that to make it commercially viable, you have got to have a two-satellite system. That is what we never followed through with.

The only reason this committee withheld is the foot in the door of $50 million will put it right in jeopardy to delay for a year, and as you know, we didn't approve the $50 million, so we have got to find another $100 million in the NOAA budget cut. That is what I was objecting to, not to Landsat.

Mr. CALIO. I read that in your letter.

Senator HOLLINGS. Or getting you to go to the Department of Defense. I think we ought to put it in the budget and raise the money and pay for it. We will have a revenue bill before this crowd before too long, before we leave this year.

We appreciate your appearance. You are looking good and healthy. Nothing personal, I wish you could get more done with NOAA rather than continue to put it out of business.

You see, when we started back, actually, there was a good move underfoot to put it in Interior. President Nixon didn't yeehaw so closely with Secretary Hickle. He wanted to make sure it didn't go in Interior, and the independent agency that was recommended by the Straton Commission was the Coast Guard, and the Government has always been opposed to more government agencies.

I am confident President Reagan would take the same position. I don't think he would get very far for a couple of years, at least. Then we have got it over in Commerce, and the only misgiving there was that Bob White, with all his weather interests and everything else, would gobble it up and we would never get it into the oceans.

On the contrary, he got us into the oceans, and he got us that balance. He developed it. He did an outstanding job.

This is a program that Nixon started. He got it going and everyone was enthused, and it has been working and working well. But since this administration has come into office, it is going out of business. They sought to do this: Take care of Sea Grant; red line this one; get rid of the ships; privatize this; maybe we can hire somebody. Maybe we can hire somebody to be a Senator——

[Laughter.]

Mr. CALIO. And Administrator.

Senator HOLLINGS. Privatize that, right? We have got a lot of volunteers out there. They are in my office. Thank you very much.

Mr. CALIO. It happens every day.

Senator HOLLINGS. Yes, sir.
Mr. CALIO. Thank you, sir.

LETTER FROM SENATOR SARBANES

Senator HOLLINGS. The subcommittee has received a letter from Senator Sarbanes with respect to the efforts to preserve and improve the Chesapeake Bay. He attached some questions for response by Mr. Calio. The letter will be inserted in the record at this point, followed by the responses to Senator Sarbanes' questions.

[The letter and responses to questions follow:]

MARCH 10, 1987.

Hon. ERNEST F. HOLLINGS,
Chairman, Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies, Committee on Appropriations, Washington, DC.

DEAR FRITZ: As you know, my colleagues from Maryland, Virginia, Pennsylvania, the District of Columbia and I are very concerned with maintaining the on-going joint effort to preserve and improve the Chesapeake Bay. An essential part of that effort is the continued participation by the National Oceanic and Atmospheric Administration.

I understand that NOAA Administrator Anthony Calio will testify before your committee tomorrow and would appreciate it if you would ask him to respond to the attached questions relating to NOAA's Bay restoration activities for the record.

Your assistance with this matter is greatly appreciated.

With best regards,

Sincerely,

PAUL S. SARBANES,
United States Senator

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Questions for the Record by Senator Sarbanes

QUESTION:

In November 1984, NOAA signed a memorandum of understanding with the Environmental Protection Agency to participate in the clean-up and restoration of the Chesapeake Bay. In view of the Budget cut proposed for FY 88 in programs important to the Bay clean-up, including stock assessments of important Bay species, oxygen depletion studies, striped bass research, Coastal Zone Management, the Sea Grant Program and NOAA'S Estuarine and Coastal Management, how does the Agency plan to meet the commitments it has made to the cooperative Federal/State Bay clean-up effort?

ANSWER:

The Administration's proposed FY 1988 budget for NOAA reduces fisheries research programs directly associated with the Chesapeake Bay by $1.5 million. Since 1985, NOAA has expended approximately $4.5 million on Bay-related fisheries research. Many of these efforts have been undertaken in cooperation with states and other Federal agencies. The Administration believes that the states should now shoulder most of the financial responsibility for Bay clean-up and restoration activities previously supported by NOAA. The Environmental Protection Agency (EPA) is the lead Federal agency and will continue its program with the states under the cooperative Federal/State Bay clean-up effort. NOAA will continue to work with EPA and the states to address highest priority Bay problems within the available funding levels.

QUESTION:

The President's budget request for NOAA for FY 88 reduces habitat research by $5.1 million and proposes to close the National Marine Fisheries research laboratory in Oxford, Maryland -- the only national marine fishery research facility in the Chesapeake Bay and Mid-Atlantic ocean -- eliminating 15 positions. Last year, the State of Maryland and NOAA began negotiations for a cooperative cost-sharing arrangement for the laboratory. What is the status of these negotiations? In view of the proposed budget cuts, how would the Federal share of the cooperative, cost-sharing agreement be paid for?

ANSWER:

Negotiations between NOAA and the State of Maryland concerning use of NOAA's fisheries research laboratory at Oxford, MD, are continuing. It is expected that an agreement which would allow the state of Maryland to conduct research at the laboratory will be concluded soon. As part of the agreement the state of Maryland would pay the operating costs for the laboratory of approximately $80K. Although the Administration initially proposes to terminate Federal support for the laboratory in the FY 1988 budget, it could continue operating at current levels if Congress enacts the Marine Fisheries Conservation Assurance Program legislation. When this legislation is

enacted, a supplemental fund request of $29 million, including funding for the Oxford lab, will be sent to Congress in anticipation of revision from fish licenses. If Federal funding is not available, the state programs could continue at Oxford under arrangements the state could make with GSA for use of the facility.

QUESTION:

What mechanisms exist to ensure that the information and recommendations developed by the Chesapeake Bay Stock Assessment Committee are integrated into the Phase II implementation process? When will reports on the status of the stocks in the Bay be available? What progress has the Stock Assessment Committee made on the development of a comprehensive, Bay-wide fisheries management plan?

ANSWER:

The Chesapeake Bay Stock Assessment Committee (CBSAC) is approaching this issue on several fronts. CBSAC representatives are attending meetings of the Science and Technical Advisory Committee of the Chesapeake Bay Program, keeping the members informed of CBSAC activities and products, and feeding back information needs to CBSAC. CBSAC is also interacting with the Bay Program's Monitoring Subcommittee and Living Resources Task Force, coordinating work plans and exchanging information. Recommendations developed by CBSAC will be targeted primarily at the State agencies responsible for management of the fishery stocks in Chesapeake Bay waters. These same agencies are also actively participating in the Phase II process. Recommendations by CBSAC that pertain to fishery habitat and pollution issues will be passed on to the appropriate State and Federal agencies.

The first round of reports on the status of important fishery stocks in Chesapeake Bay are scheduled to be distributed in early summer 1987.

The goal of CBSAC is to prepare a plan for the Bay-wide assessment of fishery stocks. The plan will include recommendations on data collection and analysis techniques, and be geared toward partitioning mortality of the fishery stocks into fishery-related, pollution-related, and natural causes. Implementation of the stock assessment plan will lead to the collection and interpretation of information upon which development and monitoring of fishery management plans can be based. It is not the intent of CBSAC to prepare fishery management plans. CBSAC recognizes this as a responsibility of the State agencies, working individually or collectively (with appropriate Federal agencies) under the auspices of the Atlantic States Marine Fisheries Commission.

ADDITIONAL CORRESPONDENCE

Senator HOLLINGS. I am sure we will receive additional letters with regard to NOAA's budget and the clerk will arrange for their printing in the record.

[The letters follow:]

LETTER FROM SENATOR GEORGE MITCHELL

United States Senate
WASHINGTON, DC 20510

March 19, 1987

Honorable Ernest F. Hollings
Chairman
Committee On Appropriations
Subcommittee on Commerce, Justice, State,
the Judiciary and Related Agencies
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I wish to request the Subcommittee's continued support for adequate funding of the National Weather Service (NWS), particularly with regard to staff levels at NWS Forecast Offices around the nation.

Year after year, the Administration has proposed a reductions in staff for eight NWS Forecast Offices (NWSFO), including one in Portland, Maine. This proposal has been made repeatedly, despite strong, obvious Congressional support for the program, and the negative impact the reductions would have on the public.

The Portland, Maine NWSFO provides critically important information for marine, agricultural and aviation operations in Maine and New Hampshire. It also offers a wide range of cooperative public programs:

--It provides the Maine Department of Environmental Protection with air quality reports, to alert and protect those who suffer from respiratory ailments.

--It coordinates the Mariners Reporting Program (MAREP), where individual fishermen are utilized for up-to-the minute weather reporting.

--It maintains programs in cooperation with the Maine Turnpike Authority.

--It has responsibility for disaster preparedness in Southern Maine, carrying out program liason with the Federal Emergency Management Agency; the Red Cross; State, county and local governments; and other organizations.

Any proposed regional consolidation of the Portland NWSFO's activities in the Boston NWSFO is both impractical and ignorant of the geographic realities of New England. Without a staff increase, the Boston NWSFO cannot absorb the responsibilities for an area larger than the rest of the region.

In rural states like Maine, many people earn their livings while depending on variable weather conditions. Any reduction in the current staff and functions of the Portland NWSFO will only endanger lives and property in both Maine and New Hampshire.

I ask that you ensure full funding to maintain the NWSFO's at their current staff levels.

Thank you for your support of my interest in this matter.

Sincerely,

George J. Mitchell
U.S. Senator

LETTER FROM SENATOR WILLIAM S. COHEN

United States Senate
WASHINGTON, DC 20510

March 24, 1987

Honorable Ernest F. Hollings
Chairman
Senate Appropriations Subcommittee on
Commerce, Justice, State, the Judiciary
and Related Agencies
S146A-Capitol
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to urge you and the members of the Subcommittee to maintain funding support in FY 1988 for the National Weather Service's Forecast Offices. One of those offices is located in Portland, Maine.

As you know, the Administration's FY 88 budget has proposed the reduction in staff at eight Weather Service Forecast Offices, a move I believe could severely diminish the accuracy and timeliness of weather forecasts in the New England region. Specific services that would be reduced or eliminated would be the agricultural forecast for Aroostook County, the haying forecast for southern Maine, the mariners weather reporting program, and public telephone access to the forecasters at the Portland office. In addition, the aviation forecast responsibility would be transferred to the Boston and New York City offices, as would Albany's, thereby creating a greatly enlarged workload at those centers with no additional staffing. In the very busy east coast aviation corridor, this could create additional strain on an already troubled system.

It is also curious that the Administration recommends the downgrading of these offices at the same time that the Commerce Department is planning to modernize and restructure the Weather Service. The proposed reorganization plan calls for full staffing of the Weather Service Forecast Office at Portland. It obviously makes no sense to reduce staff levels in FY 88, only to reinstate the full complement a few years later.

I hope that the Subcommittee will, once again, reject the Administration's budget proposal in this area, for it is certainly "penny-wise and pound-foolish." Please let me know if you have any questions about this matter.

Thank you in advance for your attention to my request.

With best regards, I am

Sincerely,

William S. Cohen
United States Senator

LETTER FROM AMERICAN FISHERIES SOCIETY

American Fisheries Society

SHELBY D. GERKING
President 1986-1987

CARL R. SULLIVAN
Executive Director

PAUL BROUHA
Deputy Director

March 13, 1987

Honorable Ernest F. Hollings, Chairman
Appropriations Committee
Subcommittee on Commerce, State, Justice
S146A - Capitol Building
Washington, D.C. 20510

Dear Chairman Hollings:

The American Fisheries Society (AFS) appreciates the opportunity to present these written comments concerning the proposed Fiscal Year 1988 budget of the National Marine Fisheries Service.

Founded in 1870, AFS is the world's oldest and largest organization of fisheries scientists. Our 8,500 members are employed by public agencies, educational institutions, and private industry, and represent an organization which has been active in fisheries research, scientific publishing, conservation, and enhancement for 117 years. We ask that this letter be included in the official record of the hearing.

The NMFS budget is not a subsidy of bail-out of the fishing industry, it is not an altruistic exploration of ocean phenomena, and it is not a superfluous expense for surplus revenues. The NMFS budget is an investment in the maintenance and wise utilization of a priceless, publicly-owned renewable natural resource which can be destroyed by misuse or mismanagement.

The living marine resources within the Exclusive Economic Zone of the United States are valuable and renewable. They are a national resource representing 15-20 percent of the world's traditionally harvested fishery resources. The current value of these resources to the nation are represented by a commercial fishery with annual landings worth over $6.2 billion at the retail level and a recreational fishery with an economic value estimated at $5 billion. The renewable nature of these resources means that substantial benefits to the nation can be realized through assuring their continued maximum biological productivity and their optimum utilization by multiple, often competing, users. Achieving the optimum utilization of living marine resources includes protecting and conserving their habitat, which is the foundation for this resource productivity. These fishery resources are migratory and occur along 95,429 miles of coastline, within an Exclusive Economic Zone (EEZ) 200 miles wide. Achieving optimum utilization of the nation's fisheries resources also involves the creation of a business climate conducive to the production of economic benefits along with the guardianship of basic resource values. Benefits include: jobs, profits, export earnings, subsistence, recreation, a better nourished populace, a healthy and productive ecosystem, and the protection of marine mammals and threatened and endangered species.

If we expect to continue enjoying the many bounties of the sea, then we must be good stewards. Indeed, we should be expanding rather than retreating. It is difficult for us to understand why this nation would fail to fund and staff adequately the one agency with the mission and expertise to properly manage this priceless renewable food resource.

HISTORICAL REVIEW

Before we comment on the specific proposal in the 1988 budget, it will be helpful to examine the history of NMFS funding. Since NMFS was transferred to NOAA in 1970, the Agency has never been adequately funded to carry out the responsibilities delegated to it.

With the thought that Congress and the public needed a better understanding of the Agency's responsibilities and administrative problems last year we prepared a graphic summary of NMFS budgetary resources since 1970 along with a partial chronological list of legislative actions which have affected the Agency during that time. Because of the similarity to last year's budget the figure is still appropriate. We have therefore enclosed it and we urge that the Committee give special attention to Figure I.

Figure I, the NMFS OR&F Budget and Legislation Schedule, presents the annual NMFS budgets in real dollars, and after 1975, also in constant 1972 valued dollars.

Figure I also lists the major legislative acts giving new responsibility to NMFS. Incredibly, over this period NMFS was given (through new legislation, amendments to existing legislation, and as a result of certain court decisions) enormous workloads which should have justified significant budget increases. In constant dollar values, the NMFS budget has been decreasing each year since 1979. Many new assignments have been thrust on NMFS, only to be funded and staffed at token levels. NMFS has been forced to reorganize its existing programs in endless repetition, cannibalizing one program after another in trying to meet growing responsibilities. We have not listed many of the less burdensome acts which expanded existing programs, added administrative procedural requirements, or gave NMFS substantial new responsibilities.

To the great credit of the people of NMFS, much has been accomplished in spite of funding problems. Achievements have come through exemplary staff efforts plus stop-gap subcontracting and successful appeals to states and industry to assume some of the burden for supporting these federal functions. NMFS has even asked foreign fishermen to gather statistics in connection with granting them fishing rights in the U.S. EEZ.

Through its existence, the NMFS fisheries program has adjusted to the demand placed upon it. In the 1800's and early 1900's there was a need to know why stocks were decreasing. In the 1950's and 1960's, there was a need for exploratory fishing and international treaties. In the 1970's and 1980's the focus changed to domestic fisheries management. NMFS programs currently provide a comprehensive and integrated approach to ensuring the continuing productivity of the nation's living marine resources.

There are dramatic examples of how past and present activities of NMFS have served the nation well. In earlier years, exploratory fishing activities led to major new fisheries, such as the shrimp fishery throughout the Gulf of Mexico, Atlantic offshore lobsters and clams, crab and bottomfish in Alaska and many more.

Fisheries research and skilled negotiations have led to equitable treatment of U.S. interests in fisheries agreements throughout the world. Consider salmon and tuna in the Pacific, groundfish in the Atlantic, shrimp off South America, etc. In recent years, NMFS fisheries research has developed information leading to investment decisions which saved vessel and processing plant operators untold millions of dollars through predictions of stock abundance. Examples include predictions of the decline in North Pacific crabs and Atlantic haddock and herring. Such predictions help reduce overcapitalization, and provide the basis for preventing overfishing and stock collapse. Fisheries management plans have been in existence only a short time, yet we have realized major benefits already.

Benefits from NMFS research also accrue to the nation's huge recreational fishing industry. Of particular importance have been research on artificial reefs and stock assessment studies for high-value species such as swordfish, marlin, and tuna.

Through the years, a program integrating all facets of fisheries science has evolved. State grants cannot be terminated without sacrificing the collection of much of the fishery statistics used by NMFS in fisheries management. The fisheries research fleet sea time cannot be cut by 50 percent without rendering useless the vital time-series of resource assessment data upon which stock abundance estimates are based. Research on Pacific salmon interception cannot be ended without impacting Pacific Salmon Treaty commitments with Canada, and similarly, research on habitats is vital to predicting stock abundance and to finding ways to mitigate the effects of coastal development.

This program integration is not limited to NMFS. For example, (1) the Sea Grant Marine Advisory Service provides for transfer of NMFS information and technology to the fishing industry, (2) the International Trade Administration uses NMFS recommendations to develop fishery markets overseas, (3) the Department of State uses NMFS recommendations to negotiate fisheries treaties, (4) the Corps of Engineers uses NMFS counsel to guide environmentally sound development of coastal areas, (5) the Coast Guard uses NMFS scientists in oil spill investigations, and (6) EPA uses NMFS technical expertise in permitting, in administering Section 301H provisions of the Clean Water Act, and in regulating ocean dumping.

The United States owns and has the responsibility for management of one-fifth of the world's fishery resources. Despite the enormity of these resources, we import $6.7 billion dollars in fishery products annually. Exports amount to only $1.1 billion dollars, so the resulting trade deficit of $5.6 billion makes the fisheries sector one of the most important factors in this nation's trade deficit.

If properly managed, our renewable fisheries resources can be expanded and sustained indefinitely. Experience shows that when fisheries stocks are mismanaged, they can be overfished so that recovery will take decades and, even then, recovery will be uncertain.

The proposed NMFS budget for 1988, if enacted, would halve a program that has successfully served the nation's fisheries for over one hundred years. Throughout its existence, the NMFS fisheries program has had the resourcefulness to meet the demands placed upon it. The existing staff of 1,893 and budget of $162.3 million (excluding special funds) is already at a "starvation" level. If we expect to continue enjoying the many bounties of the sea, then we as a nation must be good stewards of its renewable living resources. Indeed, we should be expanding our fisheries programs rather than looking for further cuts.

Under existing budgeting procedures, no official of the NMFS is permitted to come before the Congress and identify the fiscal resources which are truly necessary for effective and equitable management of renewable aquatic resources. Every Administration must control budget requests, yet there must be communication between Congress and professional public servants on these vital resource needs. We believe that Congress should conduct oversight hearings to document the dollars and staffing (including scientists, other professionals, support personnel, laboratories, vessels, equipment, and funds) necessary to manage the nation's marine fishery resources adequately. The neglect has endured too long. Most certainly the proposed 1988 NMFS budget reduction should be rejected.

It will be impossible for NMFS to accomplish the intent of Congress for the conservation, management and development of the nation's living marine resources within the budget proposed for 1988. The American Fisheries Society urges Congress to, at a minimum, restore the proposed reductions in the NMFS budget (and in so doing not to plan on the agency having funds available from a contingency fund supported by marine fishing user fee revenues). The marine fishing user fee concept enjoys no support among the state agencies, the public, or industry. It is not apparent what direct services NMFS is rendering that should be user fee-based. The fee also is perceived as undermining the state's taxing authority and since the contingent fund would expend all collections, nothing would be shared with the states. Finally, how could the agency spend a contingent fund based on user fees that would only be collected during the spending year? We suggest the user fee concept be redefined to address a specific cost for directly provided Federal services to vessels operating in the Federal Sea (3-200 miles).

BUDGET ITEMS OF GREATEST CONCERN

Information Collection and Analyses - FY 1988 Base
$103,658,000 (FY 1988 Budget Request = $65,204,000)

This subactivity provides for the vital resource research and management information activities of NMFS. With these funds NMFS collects and analyzes a broad range of information on fishery resources and the fishing industry. The Administration is seeking a $38.5 million reduction in this work. How is this possible, in light of the increasing complexity of ocean use and fisheries allocation? As available information decreases, fisheries managers must become more conservative in setting harvest levels to protect the stocks. With more accurate information the manager can set harvest levels closer to maximum economic yields, thus returning the government's investment in fishery research many times over.

Some specific effects of the proposed cuts with which we take issue are as follows:

The proposed reductions in resource surveys ($2.0 million) and habitat research ($5.1 million) will result in a significant erosion of the resource information needed for informed decisions about the nation's renewable living marine resources. Reductions in information collection on fish stock population abundance, distribution, and life history would eliminate information necessary for determining the need for developing fisheries management strategies and regulation regimes; as well as for monitoring management regimes. Further, reduction of research on the effects of pollution will affect evaluations of Boston Harbor, New York/Raritan Bay, Delaware Bay, and Chesapeake Bay. This reduction occurs at a time when estuaries are increasingly threatened by development and pollution. Health estuarine environments are absolutely necessary to the maintenance of our most valuable commercial fisheries. While the research vessel fleet isn't proposed to be tied up as last year, sailing time is reduced 50 percent so the effect will be the same--the Collection of validating time-series data on fisheries and habitats will be severely curtailed.

The proposed reduction of $3.1 million for stock enhancement and disease research would end the fledgling aquaculture research program in NMFS, close the Galveston, Texas laboratory, and end support for the Newport, Oregon facility operated by Oregon State University.

Reducing $5.0 million for work associated with the Pacific Salmon Treaty makes a mockery of the Administration's commitment to implementation of this long-sought agreement. Full funding is essential to rebuild certain Pacific salmon stocks and to complement habitat restoration activities in the Columbia River Basin.

Sea turtle populations will be jeopardized by reductions in research. The prototype trawling efficiency device needs more testing and design refinement to also exclude present finfish by catch if we are to resolve the conflict between protecting endangered species and achieving full production from our most valuable fisheries; i.e. south Atlantic/Gulf of Mexico shrimp, and redfish, fisheries already under considerable economic stress.

The proposed reduction of $1.5 million for Chesapeake Bay studies will result in termination of research on the relationship between natural and man-induced environmental changes and the response of fish populations.

Recreational fisheries research (already minimal), West Coast groundfish and fisheries development work at Tiburon, California will end and that laboratory will close.

Overall, the proposed closing of five NMFS laboratories and research facilities is devastating. The Oxford, Maryland lab is a major center of excellence in matters of fish and shellfish disease; the Galveston, Texas laboratory has been the center of research on shrimp, our most important catch; the Bay St. Louis, Mississippi facility has been the core of NMFS expertise on remote sensing applications to fisheries; the Tiburon, California laboratory provides indispensable research on rockfish and other West Coast species, and the Gloucester, Massachusetts lab has consistently been a leader in seafood quality, safety, and technology. The Administration would also severely cut its support for five other facilities.

NMFS research facilities and the scientific programs they sustain are nationally unique. They cannot be duplicated at existing state, private, or university facilities. Once these pools of talent are dispersed, restoration of the facilities and their dedicated teams can be accomplished again only after years of study and work. Study and work to be done when? by whom? with what funds? and with what assurance of the continuity essential to scientific credibility? Scientific excellence doesn't just happen, it is built through long years of dedicated effort.

NMFS staff achievement is inhibited in every scientific area by lack of funds and personnel. There is no staff redundancy and no back-up staff. Under proposed circumstances, there can be no "next generation" of trained scientists. Reductions in Information Collection and Analysis are catastrophic and there is no way for states or industry to fill the void.

Conservation and Management Operations - FY 1988 Base = $44,724,000 (FY 1988 Budget Request = $30,470,000)

NMFS uses information produced by programs funded in the previous subactivity as a foundation for its Conservation and Management Operations.

The proposed reductions in program operations for the conservation and management of living marine resources will significantly curtail federal fishery management actions with an increased likelihood of unnecessary socioeconomic loss through unregulated exploitation and with an associated risk of irreversible resource damage. Some of the impacts of the proposed reductions follow:

The budget of Fishery Management Councils would be cut 52 percent, perhaps terminating their ability to provide the congressionally mandated forum for the Fishery Management process. The great strides being made by the Councils in increasing fisheries economic yield would end abruptly. Additional progress, so near at hand, would not occur and regression would begin.

The habitat conservation and management programs through which NMFS intervenes on behalf of fisheries resources, are already funded at a tragically inadequate level, yet they are slated for further dramatic cuts. The tremendous value of these programs deserves much greater public support rather than the new cuts proposed by the Administration. Of special importance is the fact that NMFS, under the Fish and Wildlife Coordination Act, provides a unique and vital technical service to the COE, EPA, the Federal Energy Regulatory Commission, and other federal construction and regulatory agencies. Through its Habitat Conservation program, NMFS, in cooperation with State agencies, provides the regulatory agencies with a forecast of the impact of their actions on fishery habitats and recommends measures to minimize them. Those agencies lack the expertise to conduct such resource analyses for themselves. NMFS, the only federal agency with the scientific background in living marine resources, provides this service. As an example, in the Southeast alone, NMFS recently helped save nearly 17,000 acres of habitat, worth about $33 million in annual fisheries production. Project costs to the affected developers were reduced by about 15 percent through identification of environmentally acceptable alternatives.

Federal support for the Columbia River Hatchery Program is also being proposed for termination on the assumption that an alternative funding source will be found. Legislation required to transfer funding responsibility to the Bonneville Power Administration, as currently proposed, has not been passed and termination of federal support before arrangements for an orderly transition are in place could result in serious/disastrous disruptions to the West Coast salmon stocks. The impact of this proposed $8.2 million reduction is highly insensitive to resource impacts and the health of coastal economies in the Northwest. Columbia River hatcheries were built as mitigation for the colossal destruction of spawning and rearing of anadromous fish resources. These losses were caused by U.S. Government water resource development projects. Until alternative funding for hatchery operations and maintenance is assured, the Federal Government should never default on its solemn commitment to mitigate in perpetuity those enormous damages.

We find that once again unjustified and unacceptable reductions are being proposed in the NMFS Conservation and Management Operations budget.

State and Industry Programs - FY 1988 Base = $21,184,000
(FY 1988 Budget Request = $3,834,000)

NMFS operates a series of cooperative national interest programs with the states and the fishing industry. The funding of these programs in this subactivity are slated for a reduction of an appalling 81 percent. The impacts of these reductions are as follows:

All grants to states for fisheries research, development and restoration of anadromous fish (such as salmon and shad) will end. Where will NMFS obtain catch statistics when states suspend their grant-funded activities in data collection? No part of the budget adjusts for such losses. The federal role in supporting state data collection and fisheries management programs is legitimate and necessary. The resources addressed generally transcend state boundaries (e.g. salmon, striped bass, shad, menhaden) and there is little incentive for any one state to budget for activities which primarily benefit users of the resource in other states. At a minimum the Anadromous Fish Grants ($2.5 million) and the Emergency Striped Bass Study funding ($0.5 million) should be restored.

Industry assistance programs will be terminated leaving the development of the Nation's non-traditional fisheries resources to the private sector with no direct federal

program assistance. The high risk involved in fisheries development is unlikely to attract much private risk capital without some Federal involvement to provide information and assistance. The development of new products and access to export markets can be expected to require Federal assistance. The proposed budget will virtually eliminate research activities related to (1) the maintenance of fish product quality and safety for human consumption and (2) the assistance of industry in assuring continued and improved acceptability of its products in domestic and export markets.

The Saltonstall-Kennedy (S-K) fisheries development grant program is not included in this subactivity, but is related. The Administration proposes to end the program and transfer all funds (derived from 30 percent of tariffs on fishery imports) as an offset against budget deficits. We recommend the maintenance of a $9 million grant program.

The AFS has previously not commented on the special fund accounts administered by NMFS. The proposal to terminate the Fishing Vessel and Gear Damage Compensation Fund (FVGDCF), however, seems to lack any legitimate justification. The FVGDCF is not supported by taxpayer dollars, it provides compensation to fishermen for losses where individual liability for damage is difficult to prove. The fund requires appropriation language to permit payment of damage claims from collected monies. It should be noted that although no appropriation was requested for the FVGDCF in FY 1985, 1986, or 1987 because of sufficient carry-over in the account to cover approved claims, future appropriations will be required for the FVGDCF. The Administration should not be allowed to terminate this program.

WHAT SHOULD BE IN THE NMFS BUDGET

A. The NMFS budget should be increased to strengthen resource and user-related information acquisition activities to permit informed, high quality decisions affecting resource husbandry, equitable allocation, international negotiations and sound private sector investment decisions. This would require:

1. Maintaining surveys and NOAA vessel support at current levels, plus strengthening these activities through additional funds for long-term charters to meet current sea-day requirements.

2. Funding increases to strengthen data analysis activities, automated data management, and dissemination systems to support shared state and Federal data bases more effectively.

3. Maintaining current levels of Federal funding for state collection of user information needed for Federal management decisions.

B. NMFS needs to develop its capability for ecosystem/multispecies management to deal with stock interactions and fishery management/development actions. Proposed funding levels limit the research necessary to develop and validate required models. The NMFS budget should be increased to strengthen support for improving management methodology. This would involve:

1. Providing increases to define relationships of oceanographic events with resource recruitment and distribution. This information would provide a basis for resource predictions needed for effective management and industry investment decisions.

2. Providing increases to define interspecies/fish stock relationships and permit evaluation of alternative management actions and natural events.

3. Providing increases for conservation engineering to resolve gear selectivity/by-catch and gear conflict problems in managed fisheries.

4. Maintaining and enhancing federal support for state participation in management of interjurisdictional resources.

C. The NMFS budget should be substantially strengthened in the area of habitat research and conservation program operations to permit implementation of the NMFS Habitat Policy. This would involve:

1. Increasing funds for regional area planning to provide coordinated and complementary state-federal positions on proposed habitat alterations.

2. Increasing funding to identify the extent and rate of habitat change and to provide data for assessing consequences of past and proposed alterations.

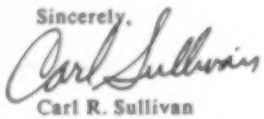
3. Increasing funding to define the relationships of habitat quality and spatial distribution with living marine resource productivity.

We in the American Fisheries Society are no longer greatly alarmed by the NMFS budget proposal. The current Administration has proposed to cut its budget so often and the Congress has steadfastly restored it just as often, that we have great faith the Congress will have the wisdom to do so again. We are concerned and angered by the apparent philosophy of callous disregard for fisheries resources. Cutting back on fisheries funding in order to reduce the deficit will inevitably have the opposite effect.

Where and when will it all end? This Administration has learned nothing from past arguments and has compounded our dismay by again seeking further dismantling of fisheries programs this year. Rather than undermining its fisheries programs, the nation should be making sound and substantial additional investments in fisheries enhancement. The payoff from such investments will influence the nation's future.

Thank you for the opportunity to present our views.

Sincerely,



Carl R. Sullivan
Executive Director

CRS/slb

attachment

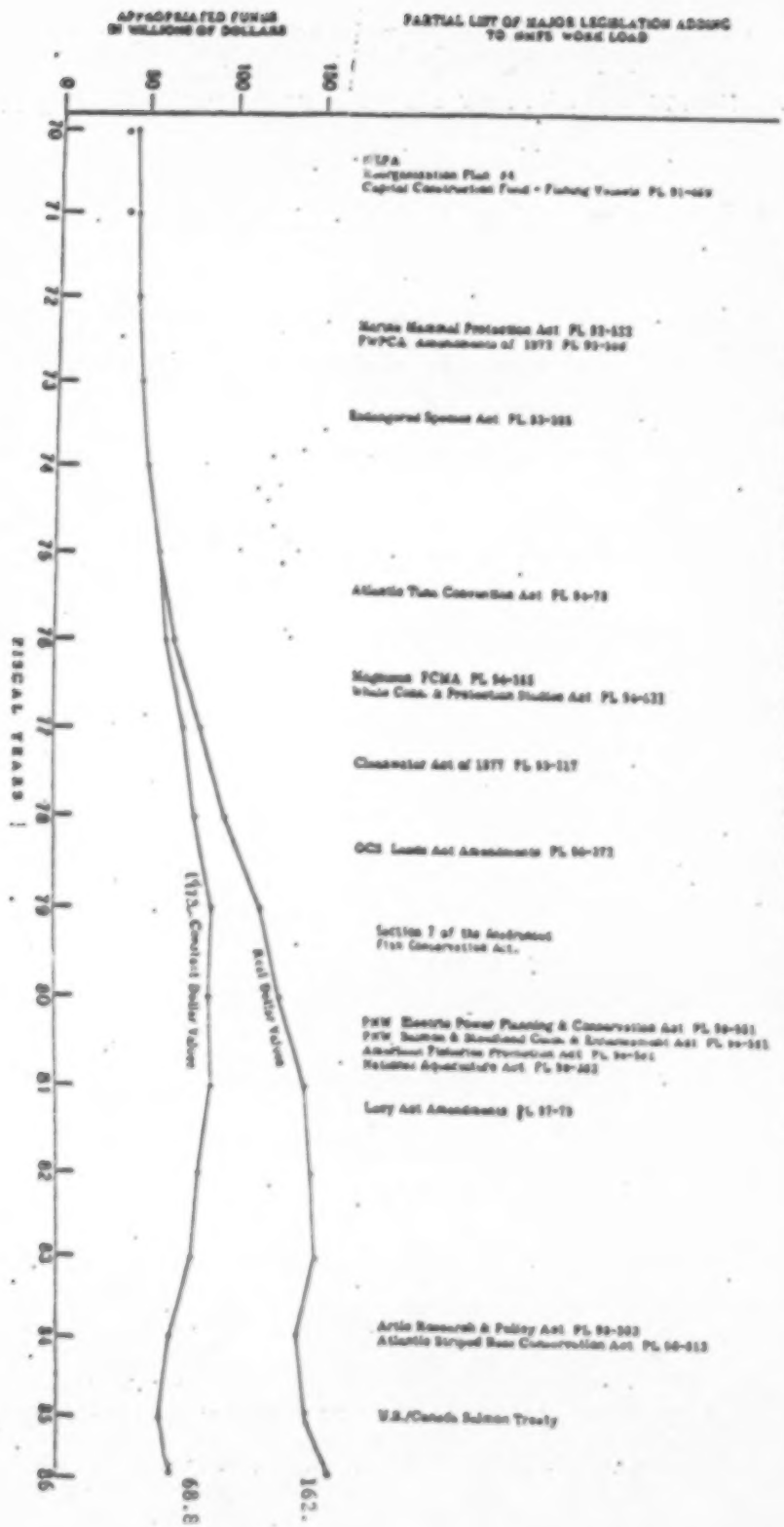


FIGURE 1.—NMFS A.R. & F. Budget - correlated with addition of new responsibilities.

LETTER FROM SEVERAL SENATORS REGARDING WEATHER MODIFICATION

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-6025

April 6, 1987

The Honorable Ernest F. Hollings
Chairman
Appropriations Subcommittee on Commerce,
Justice, State, the Judiciary and Related Agencies
S-146A, Capitol
Washington, D. C. 20510

Dear Mr. Chairman:

We ask you to join us in requesting continued funding in the NOAA budget in Fiscal Year 1988, for the Federal/State Cooperative Program in Weather Modification Research.

The total program request is $2,850,000. This includes $550,000 each for North Dakota, Illinois, Nevada and Utah, $150,000 for Nevada to provide research aircraft support to all the projects, and $500,000 for new and upgraded scientific equipment.

Significant progress is being made in this program toward resolving important scientific questions about weather modification. Further resolution will provide reduced weather losses in the arid West, the Great Plains, and the Midwest, and will further benefit the nation's water resources and energy production.

Further details are provided in the attached documents. Attachment A describes the equipment request. Attachment B describes the various aspects of the four state programs including the FY 1988 budget request.

We urge your support.

Sincerely,

Kent Conrad

Kent Conrad

Quentin N. Burdick

Quentin N. Burdick

Harry Reid

Chic Hecht

Chic Hecht

Alan J. Dixon

Paul Simon

Paul Simon

Jake Garn

Orrin G. Hatch

Orrin G. Hatch

Larry Pressler

Thomas A. Daschle

Thomas A. Daschle

ATTACHMENT A

EQUIPMENT DESCRIPTION

Transportable Forecast System

A transportable weather satellite image display system owned by the North Dakota group is used in the realtime "nowcasting" of atmospheric conditions in the field projects of the four states. As currently configured, the system requires a costly ground-based communication linkage to the University of Wisconsin Satellite Center. A direct downlink of the satellite data, plus all regular weather data, is needed to make the system much less expensive to run in a diverse number of field locations in the four states. We request $50,000 for this addition.

Lightning Detection System

The assessment of seeding effects on convective clouds requires data on their electrical activity and particularly the lightning frequency and locales. Newly-developed instruments configured in a network allow very accurate space and time detection of lightning. A mobile network system will provide this new capability, particularly important to the Illinois and North Dakota experiments who will manage the facility. The cost will be $150,000.

Polarization and Doppler Capability for Short Wavelength Radar System

Utah's short wavelength (8.6mm) radar system is currently in use in the winter programs of Utah and Nevada. Scientists have shown that a polarization capability differentiates between ice and water in winter cloud systems. This differentiation is essential to the advancement in understanding winter cloud modification. The addition of Doppler velocity measuring capability will permit this radar to determine the complex wind motions across the mountainous terrain where the weather modification seeding aerosols are dispersed for augmenting the winter snowpack. The cost is estimated to be $150,000.

Polarization of Long Wavelength Radar System

Recent research has discovered that a radar polarization capability can be very useful in detecting different types of particles in summer clouds (ice particles, water droplets, hailstones). Such a "differential reflectivity" capability would be very useful in identifying seeding effects inside clouds. To permit exploration and exploitation of this new technique for the four states, we need to equip the portable 10-cm wavelength radar of Illinois with a polarization capability at an estimated cost of $50,000.

Mobile Wind Profiler

A wind profiler provides continuous measurements of the wind speeds and directions from all levels from the ground up many miles in the atmosphere. This information allows measurement of seeding material dispersion in the atmosphere, a key factor in cloud seeding effectiveness and technique development. These data are also invaluable in making realtime forecasts of weather during seeding events, a key aspect of all four field projects. A mobile type profiler needs to be constructed by Nevada for use in all projects at a cost of $100,000.

ATTACHMENT B

FEDERAL-STATE COOPERATIVE PROGRAM IN WEATHER MODIFICATION RESEARCH FY 1988

Illinois, Nevada, North Dakota, and Utah

in Association with the

National Oceanic and Atmospheric Administration

RECENT BUDGETARY HISTORY AND FY - 1988 REQUEST
NOAA FEDERAL/STATE WEATHER MODIFICATION PROGRAM
Appropriations for Departments of Commerce, Justice, and State, the Judiciary and Related Agencies

FY-1985: $2,650,000

Illinois	$650,000
Nevada	700,000
North Dakota	650,000
Utah	650,000

FY-1986: $2,154,000

(after Gramm-Rudman Reductions)

Illinois	$501,000
Nevada	501,000
North Dakota	501,000
Utah	501,000
Aircraft Support	150,000

FY-1987: $2,150,000

Illinois	$500,000
Nevada	500,000
North Dakota	500,000
Utah	500,000
Aircraft Support	150,000

STATE BUDGET REQUEST FY-1988

Illinois	$ 550,000
Nevada	550,000
North Dakota	550,000
Utah	550,000
Research Aircraft Support	150,000
TOTAL:	$2,350,000

The FY-1988 request for each State program is for two purposes: (1) to maintain ongoing research; and (2) to perform field engineering, calibration, staff/equipment training; maintenance and transportation of new advanced technology equipment shared by the four programs.

SPECIAL EQUIPMENT REQUEST

New advanced equipment items recently developed as prototyped by NOAA, ... and other agencies need to be incorporated into the programs. The following items are high priority for our field operations. A special one-year request is made for funds to build and acquire this equipment.

1.	McIDAS Advanced Forecast System	$ 50,000
2.	Lightning Detection Equipment	150,000
3.	Polarization and Doppler for Short Wave Radar System	150,000
4.	Polarization Long Wavelength Radar System	50,000
5.	Mobile Wind Profiler	100,000
	TOTAL:	$ 500,000

TOTAL BUDGET REQUEST: $2,850,000

MANAGING OUR ATMOSPHERIC WATER RESOURCES

OVERVIEW

This Federal /State Cooperative Program has established a nucleus of national research in weather modification.

The FY 1988 plans are to continue this effort and the multi-year tradition of high quality science conducted since the program's beginning. The program has produced a sizeable body of scientific knowledge amassed from both basic and applied research. It will continue to increase the nation's capacity to manage atmospheric water resources for the benefit of agriculture, municipalities, and industry.

Program Goals:

* Illinois:	Midwestern summer rainfall enhancement for corn and soybean production.
* Nevada:	Impact of western winter seeding programs on water sensitive populated regions beyond seeded target areas.
* North Dakota:	Great Plains summer rain enhancement and hail investigations for wheat and other small grains.
* Utah:	Intermountain snowfall enhancement for irrigation and energy uses.

Commentary:

* Programs involve very different climatic regimes, including both summer and winter programs. Very little scientific duplication occurs in these programs which are of both regional and national interest.

* All four programs include sizeable State investments.

* There is excellent cooperation among scientists and administrators of the four programs, and close coordination with NOAA.

* Advanced technology equipment is being used in the research.

* Each program works closely with and financially supports the private sector in the research, operations and technology transfer.

* Each program has a significant scientific educational component involving university students and faculties.

* These programs are closely linked scientifically with other NOAA initiatives. These include: accurate weather forecasting, water resources technology, river flows and lake levels, regional climate, STORM research and atmospheric pollution scavenging.

SPECIFIC LANGUAGE ON APPROPRIATIONS:

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION'S WEATHER MODIFICATION BUDGET - FY 1988

Reference: FY-1988 NOAA Budget

Activity: Ocean and Atmospheric Research

Sub-Activity: Atmospheric Programs

Statement: Federal-State Program in Weather Modification Research

The weather modification research being conducted in Illinois, Nevada, North Dakota, and Utah is considered to be of national importance, particularly in areas of high agricultural productivity and of combined population growth and limited water supplies.

This committee disagrees with NOAA's recommendation to terminate the funding for this research.

Specifically, there shall be appropriated to these four states, under the Federal-State Cooperative Weather Modification Program, $2,350,000 for continuation of Federal-State Cooperative activities to be expended in Illinois, Nevada, North Dakota, and Utah. This includes $150,000 for aircraft flight time to be provided to the program by research aircraft.

There shall also be appropriated the sum of $500,000 for acquisition of special equipment to be used and shared by the four states.

SIGNIFICANT ADVANCES IN FEDERAL/STATE COOPERATIVE PROGRAM IN WEATHER MODIFICATION RESEARCH FYS 84-86

Illinois

1. Economic modeling research revealed that current agricultural (farm) practices make corn and soybean yields more variable and these crops more vulnerable to rainfall amounts than 20 years ago.

2. A hypothesis for how to modify isolated summer clouds has been developed, based on a dynamic seeding approach and early seeding of developing convective elements.

3. The height of convective echo tops was discovered to be closely related to their rainfall volume, and radar monitoring of tops provides a means for observing the eventual outcome of cloud seeding.

4. Initial aircraft and polarized measurements indicate a unique capability of using the sophisticated Water Survey radars to detect the phase change from water droplets to ice inside clouds, a key tool for verifying initial seeding effects.

5. A complex water balance model has been developed to allow assessment of the effect of any additional daily rainfall on soil moisture conditions and runoff during summer.

6. A nowcast weather system integrating satellite and radar data has been successfully developed and tested for operational forecasting and the evaluation of field experiments. Surface and upper air weather conditions have been screened to detect those combinations of weather factors that best explain the onset, amount, and variability of summer rain over various study areas of Illinois, providing a technique useful in both operational forecasting and evaluation of the field experiments.

Nevada

1. Developed new chemical assessment techniques for determining the effects of seeding on precipitation amounts.

2. Developed new stable-isotope method for determining the principal growth regions of snow in winter clouds.

3. Designed and built a new $250,000 dual wavelength microwave radiometer for remote sensing of water vapor and liquid water in clouds.

4. Designed and built a new $200,000 short wavelength (8.6 mm) radar system for detecting seeding effects in winter clouds.

5. Developed new snow crystal analysis technology for investigating capture rates of seeding aerosols and atmospheric contaminants.

6. Developed and implemented new chemical tracer programs for aerosol transport and dispersion investigations in complex mountainous terrain.

North Dakota

1. Determined the transport and diffusion characteristics of gaseous tracer such as sulfur hexafluoride in convective clouds.

2. Determined the mixing of seeding aerosols in updrafts.

3. Studied entrainment along the boundaries of cumulus clouds with the tracer studies.

4. Determined the time required and concentration of gaseous tracers released at cloud base to reach the supercooled liquid portion of cumulus clouds.

5. Continued the development of the Transportable Ingesting Micro McIDAS forecasting and weather observation system.

6. Continued the investigations and comparison of laboratory determined nucleation characteristics as compared to in-cloud nucleation.

7. Used the NRPP analysis to estimate the seeding effect of hail damage reduction operations in North Dakota.

Utah

1. Development of the sulfur hexafluoride (SF_6) gas tracer technology is proving useful in the study of trajectories of potential cloud seeding material from potential ground generator sites upwind of mountain ranges. As this technology is perfected, it will show how clouds can be effectively seeded from the ground and which parts of clouds may be reached by seeding material.

2. Doppler radars have provided important information on the evolving airflow in winter storms near mountain ranges. The airflow strongly influences the development of supercooled liquid water in clouds over the mountains as measured with a microwave radiometer. the airflow thus effects the seedability of the clouds. We are, therefore, in a better position to forecast when clouds should be seeded for beneficial effect.

3. From Doppler radars and a microwave radiometer important information has been gained as to where supercooled liquid water tends to concentrate in winter clouds over mountains. The locations of the liquid water concentrations influence both the amount of additional snow that can result from seeding and the location of the additional snow on the ground.

4. On the basis of microwave radiometer information, as well as data from more conventional sources like rawinsondes and precipitation gauges, it has been shown that the flux of supercooled liquid water across a mountain range is a small fraction (less than about 10%) of the flux of vapor across the mountains. This implies that cloud seeding efforts do not rob downwind areas of any significant amount of precipitation.

5. The natural efficiency within which supercooled liquid water is used in the precipitation process varies with time during a winter storm and may range from 15 to 50%. This implies that the potential for precipitation augmentation also is variable during a storm and that cloud seeding may be more effective at certain times in the storm.

6. Field data on the microphysical nature of precipitation particles such as crystal habit and extent of riming and aggregation show that snow particles of different mass may fall in different parts of a mountain range at the same time during a storm. This points to the possibility of redistributing snowfall in a mountain range through cloud seeding.

ASSISTING PRIVATE INDUSTRY AND SCIENCE EDUCATION

Each State program has made substantial contributions to the private sector, primarily the weather modification industry, and to the scientific community through education of students and important scientific findings.

Private Industry

The contributions to private industry have come in three general ways. One is the discovery and testing of techniques and methods that are useful to the activities of the weather modification and meteorological industry. The second is funding of business enterprises through involvement in the projects. The third is through the purchase of scientific equipment, computers, and specialized services.

Examples of techniques and methods developed and of practical use to the private sector include:

* Development of statistical and physical techniques to detect precipitation changes resulting from cloud seeding (Illinois).

* Compilation of all data and information on midwestern convective clouds and their potential for modification into a single document to guide seeding projects (Illinois).

* Use of trace gases to study the movement of seeding materials in complex mountain topographic settings, which will help guide future projects (Utah).

* Studies of snow enhancement in individual winter snow-producing conditions, which have led to methods for better recognizing modification opportunities (Utah).

* Comparison of the rates of ice production of two different seeding agents in wide use (North Dakota).

* The first comparisons between laboratory tests of seeding agents and those in the field (North Dakota).

Funding of the private sector to provide expertise, equipment, and operational support to the four state projects in FY 86-87 included:

* Utah: $560,000 for private sector (40%) of the total federal funds, FY 85, 86 & 87.

* Illinois: $182,000 for private sector (18%) of the total federal funds, FY 86-87.

* North Dakota: $516,742 for private sector (31%) of the total state and federal funds, FY 85, 86 & 87.

* Nevada: $500,000 for private sector (25%) of the total state and federal funds, FY 85, 86 & 87.

Vendors in areas of field projects also received benefits through expenditures of funds by program personnel for living expenses and provision of expendables and other supplies for project equipment and operations. In Utah an average of 15 people were on-site for 2 months this winter and $25,000 were expended for goods and services in support of project equipment/operations.

Scientific Community

Support for education and training of students and faculty has been substantial. Over the past three years Illinois research has involved 11 graduate students in hydrology, agriculture, statistics and atmospheric sciences. Utah supported 8 graduate students at three institutions, North Dakota has supported 9 students in the past three years, and Nevada has supported 12 graduate students during the period 1984-1987.

Each program has provided substantial funding to university scientists and students for research: Illinois $318,000; Utah $845,000; North Dakota $1,219,000; and Nevada $1,700,850. This is a total of $4,082,850 over the past three years. This is because a high percentage of the expertise and considerable equipment required for an atmospheric research program of this type exists within the universities and federal organizations, including the National Center for Atmospheric Research (NCAR). Some state programs have also funded federal agencies, including NOAA, to provide equipment and services.

ILLINOIS

Utilization of weather modification to enhance rainfall has occurred in Illinois over the past few years. This localized adoption of a yet unproven technology, largely for the benefit of agriculture, raised a series of important questions for agricultural and water resource interests. Thus, scientists from Illinois and adjoining states conceived a research program to identify whether growing season rainfall can be modified in a predictably beneficial manner for agriculture and water supplies.

The program involves four steps, or phases: 1) the pre-experimental design and sampling phase (7 years); 2) the exploratory seeding test (3 to 4 years); 3) the confirmatory randomized experiment (2 to 4 years); and 4) the final evaluation-summary (1 to 2 years). The length of each phase will depend heavily on available funding.

We have entered the second phase of PACE, having received $2.1 million in federal funds and $1.0 million in state funds. Specific program objectives are 1) to determine the precipitation alterations that are obtainable, 2) to determine the impacts of these alterations on all facets of agriculture, and 3) to determine the societal and environmental desirability of these alterations.

The program is called PACE (Precipitation Augmentation for Crops Experiment). Research from FY1987 funds will involve exploratory seeding of individual summer clouds in central Illinois to measure the changes induced inside the clouds. This will continue a test of a hypothesis that seeding at the -10°C level helps cause a more rapid conversion of supercooled water to ice, a process that is needed if certain midwestern clouds are to produce more rain.

We expect these 1987 field efforts to involve two special weather radars, a cloud physics aircraft, a seeding aircraft, and a CLASS system. This will mark the second year in the long range plan developed in 1978 to test the modification hypothesis with exploratory seeding.

Where are we now? We believe an excellent start has been made on the collection of data relating to the potential modification of Illinois clouds. Limited analysis from the 1986 data indicate that some summer clouds are modifiable, and we now need to continue this research with a larger sample.

NEVADA

In the same way that acid deposition does not recognize state or international boundaries, so it is with atmospheric weather modification. The National Science Foundation, the National Weather Modification Advisory Board (Department of Commerce appointed), and many state government entities have identifi this major scientific concern in weather modification research. Briefly, the concern is that precipitatio modification intended for one region could adversely affect snow and rainfall distributions and amounts beyond that intended region.

Although there is no conclusive scientific evidence for or against this concern, the Sierra Nevada was chosen by the Nation's scientists as one of the best, if not the best, locations to study this important national issue. In the Central Sierra Nevada there are several ongoing weather modification programs conducted by private sector companies, federal agencies, and state and local government entities. Most of these programs are designed to augment winter snowfall on the western side of this mountain range. Runoff from the treated watersheds flows principally into California. These activities may be affecting the amounts of precipitation falling on the eastern (Nevada) side of the Sierra Nevada crest.

Hence the NOAA/Nevada Cooperative Project was implemented to investigate whether cloud seeding in California affects the water supplies of Nevada. The results of this program will be transferable to other interstate or international boundaries - hence this program takes on a national perspective.

The program involves the use of remote sensing instruments capable of measuring liquid water, water vapor, and ice distributions in the clouds passing across the 3,000-square-mile project area spanning sections of eastern California and western Nevada. This required the development and use of new microwave radiometers and radars, chemical tracer technology, stable water isotopes measurements, and in-situ cloud physics measurements using sophisticated instrumented research aircraft.

The first three years of the program have produced important scientific results. We now know how far the seeding aerosols are transported from California in to Nevada. the next step was to measure simultaneously on both sides of the Sierra Nevada crest, the concentrations of liquid water, ice and water vapor. This is being done with research aircraft, a new microwave radiometer and two new short wavelength radars which were built for the program. Also new isotope and ice crystal technologies have been developed to measure where the snow captures its water content in the clouds. Special trace chemicals have also been identified to study the complex mountainous terrain effects on cloud formation and aerosol transport.

The field programs are conducted each winter season; the scientific analyses are performed throughout the winter and through the remainder of each program year.

North Dakota

The public of North Dakota has sought means for over a third of a century to improve their atmospheric resources. But, in the absence of a long-term formal national plan for a coordinated effort, the evaluation that would achieve scientific acceptance is nonexistent. As a result, technological development through application has been sporadic and the past thirty years of activity have answered few of the critical scientific questions. These national and state shortcomings being the foci, the State of North Dakota, by statue (1979), began a search for resources in a cooperative effort to aid in answering local questions which have a national impact. The scientific goals are: 1) assess changes in precipitation from cloud seeding; 2) improve the understanding of the atmospheric water processes in Northern Great Plains thunderstorms; 3) develop appropriate procedures needed for regulation of summertime weather modification activities.

It was apparent from the Colorado State University (CSU) Design Committee meetings of 1979 that 1) a well-focused and testable hypothesis would first need to be established before a field test could be conducted; 2) a thorough examination of seeding agents should be made; 3) the question of seeding delivery should be removed; and 4) the efficiency of seeding operations should be reviewed.

The field study phases which were initiated in the summers of 1980, 1981, and 1982 have gone a long way toward developing a climatological data base of the clouds present in the North Dakota target and near-target areas, assessing the current operational effectiveness, and developing statistical techniques. Work on the hypothesis development is in final form.

In 1984, preliminary testing began on two characteristically different-acting ice nucleating (i.e., seeding) agents. In laboratory tests, the rates and mechanisms of these pseudo-ice particles have been demonstrated to be different. How the agents react in the range of different cloud environments was tested with limited success in 1984. Monitoring the natural changes of ice and water in-cloud is difficult. To determine induced changes is more so. Therefore,a tracer gas was released with each test, whether seeding agents were released or not. Testing not only focused on cloud physics, but new methods of analytical observation were developed to monitor delivery, and transport in cloud boundaries. The test in 1985 continued this study, but during the four-week program few suitable cloud cases occurred. With no field program being conducted in 1986, an enhanced field program is now being planned for the summer of 1987 using National Science Foundation supported equipment with several universities completing the analysis.

Being the first to successfully demonstrate the usefulness of tracers in cumulus clouds has provided new potential for cumulus modeling development, understanding of the role cumulus play in transport of near-surface pollutants, developments toward understanding acid rain, and the delivery of seeding agents to cumulus clouds.

The FY-1987 program continues the plans to provide for 1) investigation into the physical mechanisms of cloud transport; 2) testing of ice populations in-cloud; 3) growth rates and mechanism process of different ice nuclei agents; 4) cloud modeling studies; and 5) basic understanding for evaluation.

UTAH

The goal of the ongoing operational wintertime cloud seeding program in the State of Utah is to augment the available water supplies by increasing snowpack in selected mountain watersheds. Results of a statistical analysis of ten years of project data show strong evidence of an annual increase in precipitation of 12 to 15%. These indicated effects are in general agreement, in terms of magnitude, with results of previously conducted operational and research programs. The increase in precipitation translates into a similar increase in runoff. The average cost to develop an acre-foot of water over the ten seeded seasons has been approximately one dollar. It is obvious that cloud seeding is an extremely cost-effective method of increasing water supplies.

The basic objective of the State-Federal Cooperative Program is the evaluation of an operational weather program of the type being conducted in Utah. Additional benefits are increasing the scientific knowledge of weather modification and improving the technology. A primary advantage of a cost sharing program is that certain research objectives can be achieved in a more cost-effective manner since many support/operational cost need not be duplicated.

Under this cooperative program field research has been conducted in the Tushar Mountains east of Beaver, Utah, during the winters of 1981, 1983, and 1985 and most recently 1987. The analysis of data from the 1985 program is completed and the final report of the results is available. A program dependent on weather is subject to a broad variance in both storm types and frequency from one year to another. For example, the winter of 1981 was relatively dry with only six storms occurring in the research area between January 15 and March 15. In contrast, 22 storms moved through the area in 1983, another 20 in 1985, and 11 storms in 1987 during the same two-month research period. Though the frequency increased in 1983 and 1985 there was still a great variance in the type of storm that occurred. These differences are why the technical design for the cooperative program in Utah called for a minimum of five seasons of data gathering in order to adequately answer some of the major questions regarding seeding effects.

This program is not only important to the State of Utah but has an impact on weather modification efforts worldwide. Operational program designs are often based on results from research in other geographical areas. A comprehensive evaluation of these operational projects is needed to assess their effectiveness and the transferability of the research results. The Utah program is addressing critical national concerns regarding: 1) increased knowledge of the spatial and temporal distribution of supercooled liquid water in clouds over the mountains; 2) an understanding of the transport and delivery of seeding material from potential ground-based generators sited upwind of the mountains to clouds over the mountains; and 3) knowledge about the precipitation trajectories within the clouds. Significant insights are being gained in the workings of winter clouds in mountainous regions which will lead to improvements in operational seeding of these clouds. A number of reports and scientific papers have been completed as a result of this program and more are expected as analysis of previously collected data continues.

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LETTER FROM SENATOR TED STEVENS

United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-6025

March 31, 1987

The Honorable Ernest F. Hollings
Chairman
Subcommittee on Commerce,
Justice, State, and Judiciary
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Fritz:

Last year we enacted legislation which established the National Fish and Seafood Promotional Council. The National Council is designed to coordinate efforts to market domestically produced seafood generically on a nationwide scale.

Funding is authorized to be appropriated from the Saltonstall-Kennedy (SK) grant program in order to avoid increasing the burdens on the federal budget. SK grants are already being used to promote seafood, and this purpose can best be served by coordinating the effort through a national organization.

The National Council is authorized for only four years. We hope that the promotional efforts of the National Council will encourage many in the fishing industry to develop independent, regional councils which would be supported by industry assessments.

We authorized $750,000 for FY 87 for start-up costs and the development of a coordinated promotional plan. Unfortunately, the authorizing legislation was delayed until the last day of the Congress. This prevented me from seeking an appropriation in the regular FY 87 appropriations cycle. I would greatly appreciate your assistance in earmarking $750,000 for this purpose from existing SK grant monies as part of the FY 87 Supplemental Appropriations legislation.

With best wishes,

Cordially,

TED STEVENS

SUBMITTED QUESTIONS

Senator HOLLINGS. Thank you, sir. We have additional questions from committee members which will be inserted at this point.

[The following questions were not asked at the hearing, but were submitted to the Administration for response subsequent to the hearing:]

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

QUESTION:

OCEANS AND ATMOSPHERE

Mr. Calio, when I first became Chairman of the Subcommittee in 1977, I was determined to achieve a parity between oceans and atmosphere in NOAA's Budget. As I recall, about one-third of NOAA's budget went for ocean and coastal programs at that time. By 1980 we had nearly achieved parity. I have a NOAA budget history developed by the House Merchant Marine and Fisheries Committee that shows it was 46.6% Ocean and Fisheries, and 53.5% Atmosphere and Satellites in 1980.

Now, according to our House friends, we are budgeting only 24% of NOAA's budget for Ocean and Fisheries programs and 76% for Atmosphere and Satellites. In terms of 1980 dollars they estimate that the ocean side is only budgeted for half of what it should be after taking inflation into account while the atmosphere is way ahead of inflation.

Mr. Calio, do you agree with this analysis and what can we do to get moving towards parity again. For instance, did your original requests to the Department have a better balance between Oceans and Atmosphere?

ANSWER:

A significant portion of the 46% is represented by two components - Sea Grant and Coastal Zone. Neither of these grant programs contribute directly to NOAA programs or research but benefit local interest and users.

As to the satellite issue, satellite observations contribute to both oceanographic and atmospheric measurements. The intention is to see these phenomena existing in a synoptic or large scale rather than looking at point measurements. This approach has helped oceanography tremendously over the past few years. A typical example has been our increased understanding of the El Nino phenomena and the southern oscillation activities. Detail measurements in place are important, but seeing some of these other effects take place, for example, sea surface temperature variations, on a regional or synoptic scale, has been a tremendous advantage to those studying both climate and oceanography.

There can be nothing more important for us to do than try to link the interactions of the oceans with the atmosphere. We have tried to do that in the most effective way by both satellite observations, in-place observation and trying to get other nations to support us in making ocean observations throughout the world.

QUESTION:

NOAA HEADQUARTERS

A. We made you Under Secretary of Commerce because we wanted to remind the Commerce Department of NOAA's importance. Now only

a few months later, you and your whole NOAA Headquarters team is going to be moved out of the Hoover building and all the way to Silver Spring. Doesn't this move increase the danger that the Commerce Department will forget all about NOAA?

B. What costs in FY 87 and FY 88 do you anticipate for carrying out your Silver Spring Consolidation? Will you be sending up a supplemental request and FY 88 amendment to fund the consolidation?

C. Please provide details of the cost of the move.

ANSWER:

A. NOAA's importance to the Department of Commerce will not diminish because of the pending move of NOAA headquarters from the Hoover Commerce Building to new facilities in Silver Springs. A number of Departmental components such as the National Bureau of Standards, the Bureau of the Census and the Patent and Trademark Office are located away from the Hoover Building in facilities of their own. These units have not received less attention from the Department of Commerce, despite the physical separation. There will be no disruption of communication with the Department as a result of the move; in fact, because of faster communications within NOAA, the flow of correspondence, clearances and so forth to and from the Department will probably improve as consolidation proceeds. To ensure this, NOAA will maintain Executive suites and Administrative liaison offices in the Hoover Building.

The establishment of NOAA's headquarters in Silver Spring involves more than the relocation of personnel from the Hoover Building, since the new building will house portions of all NOAA's units, including all of the Assistant Administrators. NOAA's Silver Spring consolidation is the culmination of three years of close cooperation between NOAA, the Department and the General Services Administration (GSA). A total of 4,700 employees occupying 1.1 million square feet of space in 18 buildings in the Washington area will be consolidated at a single location.

Since NOAA's creation in 1970, dispersion of facilities has proven inefficient, frustrating and costly. Simple actions like convening meetings of the agency's leadership consume much unproductive time; program coordination is made more difficult; and over $5 million in avoidable costs are incurred annually.

Establishment of the new headquarters in Silver Spring represents a commitment by NOAA and the Department to eliminate these problems through a total consolidation of the agency in the National Capital region.

B. The move of various Washington area NOAA components to the new Silver Spring headquarters involve a number of costs not previously anticipated.

The second building in the NOAA Silver Spring complex will be

about twice as large as the first. While it will not be ready for occupancy during FY 88, planning and procurement activity for the proposed extensive moves of computer equipment should proceed during FY 88 if the move is approved.

C. Although the move to the first building is expected to occur after October 1, 1987, we expect to incur cost during FY 1987 as well. We are reviewing cost estimates now. If the Administration decides to proceed with the move, we will provide the final plan and estimates to Congress.

QUESTION:

NOAA'S SCIENCE PROGRAMS

The Administration recently announced that the National Science Foundation budget will be doubled in 5 years. Given this new interest in science, why do we continue to see large Administration cuts for NOAA scientific program?

ANSWER:

The proposed reductions in NOAA's FY 1988 research and development activities do not reflect a decrease in this Administration's continuing commitment to maintaining an appropriate Federal role in the support of science. Rather, they reflect an overall effort to focus limited Federal resources on those highest priority R&D activities which are clearly the responsibility of NOAA and the Federal Government. Most of the specific programs involved (e.g., Sea Grant, NURP, Saltonstall-Keneedy) are more appropriately funded by the state, regional, and private sector interests which are the principal beneficiaries of the activities they support.

QUESTION:

In light of the Administration's strong support for NSF and its negative attitude toward NOAA, are you surprised that your top candidate for NOAA Chief Scientist decided to take a position at NSF instead?

ANSWER:

The recent decision by the selected candidate to withdraw his name from consideration for the post of NOAA Chief Scientist was a personal one.

QUESTION:

What are you doing to induce high quality scientists to seek the NOAA Chief Scientist position?

ANSWER:

NOAA, the Department, and the White House are actively seeking a new candidate for the position of NOAA Chief Scientist. We are consulting with representatives of the scientific community, including the National Academy, and hope to make a selection in the near future.

QUESTION:

I understand that OMB has not required NOAA to make GS 11-15 grade reductions because of its need to recruit and keep scientists and engineers. What is the justification for your proposal to cut the base by $2.4 million for GS 11-15 reductions?

ANSWER:

The Administration began a five-year GS 11-15 reduction program in FY 1985 with associated projected dollar savings. In FY 1986, the Administration determined that the savings did not specifically have to come from reductions in GS 11-15 positions, but that the savings could be attained by other administrative cost reductions. NOAA has received no exemption from participating in this program.

QUESTION:

PROGRAM DECREASES

Mr. Calio program decreases of $164,977,000 are proposed in the Operations, Research and Facilities appropriation. Only 3 of them amounting to $25,159,000 are for programs whose goals purportedly have been accomplished. There are 24 item that total $65,255,000 that supposedly serve specific beneficiaries; while the remaining 49 that amount to $74,563,000 are termed nice things to do but are given a lower priority given current budget constraints.

FY 1988 BUDGET
OPERATIONS, RESEARCH, AND FACILITIES
FY 1988 PROPOSED DECREASES

The program decreases proposed in the FY 1988 Budget request are as follows:

NATIONAL OCEAN SERVICE

Mapping, Charting and Geodesy		
o Reduce State-Specific Geodetic Surveys.....	$400	*
o Reduce Vertical Control Network Program.....	500	***
Observation and Assessment		
o Reduce Marine Boundary Program.....	300	***
o Reduce Ocean Services Program.....	1,600	***
o Reduce Circulatory Program.....	350	***
o Chesapeake Bay Tide Stations Maintenance.....	20	***
o Reduce Ocean Assessment Activities.....	5,800	***
Ocean and Coastal Management		
o Reduce Estuarine Reserve System Program.....	1,600	***
o Reduce CZM Program Management.....	600	***
o Reduce Marine Sanctuary Program.....	600	***
TOTAL, National Ocean Service.....	-11,770	

* - Specific Beneficiaries (e.g., State, Local)
** - Goals have been accomplished
*** - Nice to do, but lower priority given current budget constraints.

NATIONAL MARINE FISHERIES SERVICE

Information Collection and Analysis:		
Resource Information		
o Assessment and Monitoring Fisheries Stock	1,078	***
o Fish Oceanography and Survey Technology	922	***
o Habitat Research	5,133	***
o Stock Enhancement/Disease Research (Aquaculture)	3,097	*
o West Coast Groundfish Research	900	***
o Protected Species Research	1,275	***
o Marine Mammal Research	1,600	***
o Salmon Treaty Research	5,000	***
o SEAMAP	1,000	***
o Antarctic Research	2,000	***
o Habitat Evaluation Methodology	500	***
o Chesapeake Bay Studies	1,500	*
o Sub-Arctic Bottomfish Research	900	**
o MARFIN	3,500	***
o Right Whale Research	250	***
o Hawaii FMP Development	275	*
o Gear Entanglement Studies	750	***
o Alaska Salmon Enhancement Activities	4,000	*
o Limnological Research	300	*
o Yukon River Chinook Study	250	***
o Japanese Salmon Interceptions	150	***
Fisheries Industry Information		
o Economic and Commercial Fish Statistics	3,100	***
Information Analysis and Dissemination		
o Near-Shore Fisheries Research	738	***
o Data Analysis	236	***
Conservation and Management Operations:		
Fisheries Management Programs		
o Regional Councils	4,000	***
o Columbia River Program	8,254	*
Habitat Conservation		
o Habitat Conservation	2,000	***
State and Industry Assistance Programs:		
Grants to States		
o Commercial R&D Grants	4,000	*
o Disaster Assistance Grants	2,000	*
o Anadromous Grants	2,500	*
o Striped Bass Research	500	*
Fisheries Development Program		
o Fisheries Trade Activities	1,500	***
o Product, Quality and Safety Research (PQS)	4,400	***
o Fish Oil Research	1,000	***
o Gulf of Mexico Underutilized Species R&D	1,000	*

* - Specific Beneficiaries (e.g., State, Local)
** - Goals have been accomplished
*** - Nice to do, but lower priority given current budget constraints.

o	Mahi Mahi Export Strategies.....	100 *
o	Model Seafood Inspection Program.....	350***
	TOTAL, Fisheries Programs.....	-70,058

OCEANIC AND ATMOSPHERIC RESEARCH

o	Reduce TOGA Program.....	3,000 ***
o	Reduce severe (mesoscale) weather research.....	1,250 ***
o	Reduce PROFS.....	2,000 ***
o	Terminate Weather Modification grants.....	2,150 *
o	Terminate Seafloor Processes Research.....	1,800 ***
o	Reduce GLERL.....	1,100 *
o	Terminate Sea Grant.....	16,826 *
o	Terminate National Coastal R&D Institute.....	1,250 *
o	Terminate Undersea Research Program.....	10,635 *
	TOTAL, Oceanic and Atmospheric Research.....	-40,011

NATIONAL WEATHER SERVICE

Operations and Research

o	Colorado River Basin Flood Warning System O&M....	650 *
o	Emergency Power for NOAA Weather Radio.....	400 ***
o	Reduce Staff at Eight WSFO's.....	836 ***
o	Close Southern Region Headquarters.....	852 ***
o	Reduce Data Buoy Test and Engineering Activities.	574 ***
o	Terminate Maintenancefor Hawaii Data Buoys.....	600 ***
o	Consolidate Pacific Region HQ w/Alaska Region HQ.	407 ***
o	Terminate Agriculture Weather Service.....	1,000 *
o	Reduce Fire Weather Services.....	300 *
o	Terminate Fruit Frost Program.....	418 *
o	Reduce Meteorological Technical Staffing.....	576 ***
o	Susquehanna River Basin Flood Warning System.....	2,340 *
o	Susquehanna River Basin Flood Warning System O&M.	660 *
o	Reduce NWS Research and Development.....	340 ***
	TOTAL, National Weather Service.....	-9,953

NATIONAL ENVIRONMENTAL SATELLITE, DATA, & INFORMATION SERVICES

Satellite Observing Systems:

o	GOES I-M Spacecraft & Launch Built-in Change.....	655 **
o	Discontinue Landsat 4&5 Operations.....	23,604 **
	TOTAL, National Environmental Satellite, Data and Information Services.....	-24,259

PROGRAM SUPPORT

Marine Services

o	Close Southeast Marine Support Facility.....	300 ***
o	Reduce Fleet Rehabilitation Program.....	268 ***

* - Specific Beneficiaries (e.g., State, Local)
** - Goals have been accomplished
*** - Nice to do, but lower priority given current budget constraints.

o	Deactivate FAIRWEATHER, DAVIDSON, McARTHUR, ALBATROSS IV, OREGON II, JOHN N. COBB, MURRE II.....	7,230 ***
o	Reduce days-at-sea on DISCOVERER, RESEARCHER, SURVEYOR, MILLER FREEMAN, TOWNSEND CROMWELL, DAVID STARR JORDAN and DELAWARE II.....	1,128 ***
	TOTAL, Program Support.....	-8,926
	TOTAL Decreases.....	-164,977

* - Specific Beneficiaries (e.g., State, Local)
** - Goals have been accomplished
*** - Nice to do, but lower priority given current budget constraints.

I note that the Yukon River Chinook study is one of those nice things that couldn't be covered by the budget while the elimination of the Chesapeake Bay studies is attributed to specific beneficiaries. What is the rationale for the distinction, as I would view the Chesapeake Bay as a national jewel and I don't see it serving specific beneficiaries?

ANSWER:

The Yukon River Chinook study is not considered essential for meeting Federal treaty responsibilities associated with the U.S./Canada Treaty. If this information is desired by the State of Alaska, it is more appropriate for them to fund the research. In contrast, the initial Federal involvement in the Chesapeake Bay work helped to provide the impetus for state actions. This program has matured and can now be continued by the states and private sector ordering contributions, thereby permitting a reduction in Federal involvement. Support of this program by the states bordering on the Chesapeake Bay is considered appropriate since their citizens are the direct beneficiaries of economic returns associated with a clean and productive bay.

QUESTION:

With regard to the Chesapeake Bay:

A. What is the overall Federal effort in 1987?
B. How much is budgeted for 1988?
C. Please provide for the record the amounts expected to be provided by each Federal agency and the states for 1987 and 1988.

ANSWER:

The following table responds to the three questions above and summarizes the state and Federal funding in FY 1987 and FY 1988 specifically appropriated for the Chesapeake Bay program. In addition there are other state/Federal activities within the Chesaepake Bay (e.g., P.L. 89-304 grant program activities, striped bass research, sea grant, coastal zone management, status and trends, and tide and water levels programs) which are not part of the Chesapeake Bay Program.

($ in Thousands)

Agency/State	FY 1987	FY 1988 (Proposed)
NOAA	$1,500	0
F&WS	990	990
EPA	10,220	10,220
Soil Conservation Service	1,140	0
DOD	320 1/	0
Est. Federal Total	14,170	11,210
Maryland	40,000(est)	not available
Virginia	-	43,900 2/
Pennsylvania	2,200	not available

1/ Special study being conducted with base funds; not specific appropriation for Chesapeake Bay Program.

2/ Biennial summary for 1984-86 and 1986-88 budget periods.

QUESTION:

With regard to the Yukon River Chinook Study, isn't that incorrectly designated? Page 70 of the justifications says that additional funds are not needed.

ANSWER:

The Yukon River Chinook study was not indentified as a critical element for the U.S./Canada Treaty implementation support program at the $13 million program level. Therefore, it would not be considered sufficently high priority to be included in the proposed $8 million program for FY 1988. If this information continues to be desired by the state of Alaska, then the research work should be supported with state funds.

QUESTION:

FEDERAL MARINE FISHING FEES

How do your marine fishing fees differ from last year's proposal?

ANSWER:

The original proposal from last year applied only to sport anglers, and only to the EEZ. It required sport anglers between the ages of 16 to 64 to purchase a $10 license, and allocated 50% of the license fee ($5) to the Federal Government. It also required states to sell the license (states would get 50% of the license fee less administrative costs) and required the states to administer the program.

The draft bill -- "The Marine Fisheries Conservation Assurance Program Act of 1987" -- differs from last year's proposal in several ways. Specifically, the bill applies to U.S. commercial fishermen (including joint ventures) and sport anglers, and to fishing in tidal waters and the EEZ. It requires all commercial fishermen and recreational anglers ages 16 to 64 to buy a $6 permit, and requires a $25 gamefish stamp for a species of marine fish, the sale of which is

prohibited by rule adopted pursuant to the Magnuson Act. Also, the first person who sells or delivers fish for commercial purposes must buy a $25 sellers stamp, and the first buyer or first receiver of marine fish for commercial purposes must buy a $25 buyers stamp. Finally, it requires payment of a marine fish conservation fee of 1% of the ex-vessel value at the time of first sale or first delivery for commercial purposes.

The draft bill gives the coastal states the option of selling the stamps and permits, or letting the Federal Government do it. If a state participates in the sale of the stamps and permits, they will get 50% of the revenues they collect. If a state does not participate, it will receive 50% of the net funds (after deducting Federal administrative costs) of the sales in the state for each of calendar years 1988 and 1989. In 1990 and beyond, the non-participating states will receive only 20% of the remaining net funds.

The proposed legislation allows the Federal Government to choose the most cost-effective way to sell the stamps and permits when a state does not participate in the program, and requires that Federal user fee revenues be deposited in the general fund of the U.S. Treasury. It also requires that funds received by the coastal states be allocated between programs supporting recreational and commercial fisheries in a manner that fairly reflects the source of the funds.

QUESTION:

Am I correct that the distribution formula to the states is for them to collect the fee and keep half of it?

ANSWER:

If a coastal state participates, i.e., it agrees to establish a collection program acceptable to the Secretary of Commerce, then it will receive 50% of the revenues it collects. For technical reasons, the bill requires that the state first deposit the monies in the U.S. Treasury. The Secretary of Commerce subsequently will pay the state 50% of the revenues it deposits.

If the coastal state does not participate, i.e., the Federal Government is responsible for revenue collection, and the state will then receive in 1988 and 1989, 50% of the net revenues collected in that state. In 1990 and beyond, it will get only 20% of the remaining net funds.

QUESTION:

How then do you propose to give states a greater share of the revenues if they adopt measures to administer and enforce the permit and stamp program?

ANSWER:

A state can receive 50% of the revenues it collects if it has a collection program approved by the Secretary of Commerce. If it does not participate, a greater share of the administrative burden is borne by the Federal Government, and the state, therefore, will

receive a smaller share of the revenues.

QUESTION:

Would states that don't administer and enforce the program be given any part of the revenues? Why?

ANSWER:

States that do not participate in the administration and enforcement of the program will receive less revenues than participating states (20 percent versus 50 percent in 1990 and beyond). The program can be operated more efficiently if the Federal and state governments work together.

QUESTION:

In your draft statement there was a distribution of the portion of the Marine Fishing License that NOAA will retain. That distribution was deleted from the statement that was submitted for the record. Is the original distribution still valid, or does that deletion indicate some changes in the planned use of the fees?

ANSWER:

Yes, the original distribution estimates are valid at this time.

QUESTION:

Does NOAA require legislation to put into place the additional fees planned for 1988? Please indicate any fees that NOAA can establish administratively.

ANSWER:

Legislation is necessary to implement the proposed fee under the Marine Fisheries Conservation Assurance Program Act of 1987. However, the Magnuson Act provides the authority to collect administrative fees for issuing certain types of fishery permits. The other NOAA fees (Space Environmental Lab and Weather Service) will be implemented administratively.

QUESTION:

GREAT LAKES WATER LEVEL DATA

It would appear that the amount of Great Lakes Water level data is being reduced by 25% in 1988. At the same time the International Joint Commission has a supplemental request of $600,000 pending with regard to the fluctuating water levels in the Great Lakes - St. Lawrence River Basin. The Commission indicates that NOAA is to contribute personnel and other resources to the study.

Please explain how these things fit together, as this does not seem to be the time for NOAA to be getting less data about the Great Lakes?

ANSWER:

The reduction described above apparently refers to the entire Great Lakes Environmental Laboratory (GLERL). This laboratory conducts both pollution and lake hazards research, including water levels. GLERL uses water level data collected by the National Ocean Service (NOS) to conduct research and to improve forecasts of future lake levels; they do not make operational measurements. It is lake hazards research that will be cut back by this reduction.

QUESTION:

Under Marine Predictive Research there is a decrease of $1,100,000 in support of the Great Lakes Environmental Research Laboratory. Among the GLERL activities to be reduced is research on water fluctuations. NOAA is reducing exactly what the International Joint Commission says is needed; wasn't there any coordination on this?

ANSWER:

Personnel from GLERL have worked very closely over the years with International Joint Commission (IJC) and will continue to do so. We will continue to provide the State Department with information required to respond to requests from the IJC. Recognizing international commitments like the U.S. Canada Water Quality Agreement, NOAA will focus most of the proposed reduction on GLERL activities, like hazards research, which primarily benefit Great Lakes users and are, therefore, more appropriately funded by them.

QUESTION:

SEAFOOD PROMOTION ACT

The Fish and Seafood Promotion Act of 1986 established a National Council for promoting fish and seafood products, with a $750 thousand authorization for FY 1987.

A. When do you expect to have appointed all the Members of the National Council?

B. How much funding do you expect will actually be required for the National Council in FY 1987, assuming that the Council will not issue contracts immediately?

ANSWER:

A. We expect that all members of the National Council will be appointed by June 30, 1987.

B. We expect that approximately $125K will be required to appoint members to the National Council and hold the first meeting in FY 1987. No contracts are expected to be issued by the Council in FY 1987. It should be noted that even though funds for implementation were authorized, no funds were appropriated.

QUESTION:

SEAFOOD SURVEILLANCE SYSTEM DEVELOPMENT

NOAA has been provided $350 thousand plus to help design a Seafood Surveillance System (i.e. a system to assure safe, wholesome and properly labeled seafood for the U.S. consumer).

A. What is the status of this study?

B. Will $350 thousand be enough to accomplish this task?

ANSWER:

A. A number of meetings have been held with the National Fisheries Institute (NFI) and the National Academy of Sciences (NAS) to develop the detailed elements of the work plan to perform the study. Both NAS and NFI concurred with the study design.

The protocol and reporting forms to be used during site visits have been drafted and reviewed in the NMFS utilization laboratories for applicability to the species and harvesting, processing, and distribution practices in these areas. Information letters and a Federal Register notice have been drafted to inform industry trade associations and governmental agencies of the scope of the study and encourage their support and involvement.

At the invitation of the Catfish Farmers of America (CFA), NMFS gave a presentation about the study. After reiterating ways for paticipation in this study, the Commissioner for Agriculture for the State of Mississippi and the Executive Director for CFA expressed support and offered assistance in the study. NMFS will be giving presentations to NFI at its convention in April, and at the Interstate Environmental Health Seminar in Annapolis in July. Other presentations likely will be requested as information about the study becomes more widely known.

B. The present level of funding is sufficient.

QUESTION:

Does NOAA believe there is a strong need for development of a mandatory Seafood Inspection program. (Something like Inspection of Meat and Poultry by USDA?)

What would an inspection program for seafood cost?

ANSWER:

The uniqueness of the fishing industry would likely make a seafood inspection program "something like inspection of meat and poultry by USDA" inappropriate for fish. The purpose of the study is to develop a pragmatic system for use by the fishing industry.

The cost of such an inspection program is not known at this time. As mandated by Congress, part of the study would include an economic

analysis of the public and private costs of implementing such a system. The economic analysis would occur after a description of current status of the industry, an assessment of the risks, and identification of an appropriate level of monitoring are completed.

QUESTION:

EXCLUSIVE ECONOMIC ZONE

What is the status of the Navy's dispute with NOAA over detailed surveying and charting of the 200 mile exclusive economic zone?

ANSWER:

NOAA is continuing to conduct multibeam bathymetric surveys of the Exclusive Economic Zone (EEZ). Agreement has been reached with the Navy that permits the release of properly controlled data to other Federal agencies and the use of multibeam data in the production of unclassified nautical charts. NOAA's bathymetry is routinely provided to the U.S. Geological Survey to support geologic research and mineral resource assessment. Data to support individual projects has been provided to other agencies. Other uses of multibeam bathymetric survey data in marine research and by domestic ocean industries are severely restricted at this time. Despite classification, NOAA is applying modern high resolution systems in the conduct of offshore surveys rather than prolong use of outdated technologies. In this way, a quality U.S. data base of marine geographic information is created. NOAA is in the process of modifying facilities to provide for the secure handling of these data.

NOAA is continuing deliberation with the Navy in an effort to modify its position and allow limited uses of selected data sets by domestic users. Multibeam survey technology has now become available from both foreign and domestic suppliers and about 30 systems and the data they produce are becoming an increasingly difficult problem in international relations. NOAA has also worked with the Congressional Office of Technology Assessment to examine the effects of restrictions on domestic, academic, and industrial research. Our goal is to ensure maximum return for those dollars spent on surveying operations by making products available to as wide a spectrum of domestic users as possible without damage to national security.

QUESTION:

GOES SATELLITES

Is the procurement of the next generation of GOES satellites on schedule, or is there a chance of a data gap in 1990?

ANSWER:

Delivery of GOES I, the first of the next generation of geostationary operational environmental satellites, is contractually required to occur in late October 1989. The contractor has reported that it fully expects to meet this delivery date.

The actual launch date for this satellite could be delayed for one of two reasons. First, unexpected development problems could cause the spacecraft delivery to be delayed. Though some slack is included in

the qualification schedule for the satellite, past history for similar programs, argues for a degree of conservatism in assessing the probability of meeting delivery schedules for the first satellite in a new series. Second, we do not yet have a guaranteed reservation for a launch date from the provider of commercial launch services. A source board is being constituted under the auspices of the Department of Commerce, to procure these services. It plans to award a contract in late summer. Once that contract has been awarded, it will be possible to predict when GOES I will be launched.

No data gap is anticipated in 1990. Though the GOES 6 satellite may not remain useful beyond 1988 or 1989, the recently launched GOES 7 is anticipated to remain fully operational through 1992 or 1993. At a minimum then, we fully expect to be in position to provide at least one-GOES coverage, through the launch and early orbit evaluation for GOES I, whether it be launched in late 1989 or later.

QUESTION:

Launch costs for the next generation of GOES satellites are not included in the budget. Could you please tell us what is the range of likely costs for each of these satellites, especially the first 3 launches on expendable launch vehicles?

ANSWER:

GOES I-M launches costs of $109M are included in the President's Budget 1987-1991. However, since our launch services will be procured in the commercial marketplace and an RFP has not yet been issued, the launch costs have been estimated and will be updated once we have better information. We will not be able to provide you with an accurate estimate of the cost for these services until we receive bids.

QUESTION:

GLOBAL OBSERVATION SYSTEM

Last year NOAA, NASA and NSF held a joint press conference regarding the need for a triagency initiative to establish a global observation system to detect and evaluate major changes in the environment. The Administration's FY 1988 Budget requests for NASA and NSF contain funding for a global change initiative.

What activities have been identified for the NOAA portion of the global change initiative, and how much funding has been proposed for this in the FY 1988 Budget request for NOAA?

ANSWER:

The FY 1988 budget does not include a specific NOAA global change initiative. Many of our ongoing programs in oceanic and atmospheric observations; data collection, processing, and analysis; long-term monitoring; focused research; predictive modeling; and information management comprise a substantial and unique Federal capability and serve as the foundation for NOAA's contribution to a national global change program (e.g., Radiatively Important Trace Species (RITS), Tropical Ocean-Global Atmosphere (TOGA), Geophysical Monitoring for Climate Change (GMCC), ocean observations, ocean-atmosphere modeling,

National Data Centers).

QUESTION:

Given the importance of understanding global environmental changes like the depletion of atmospheric ozone, why has the Administration proposed further cuts for the TOGA program (Tropical Ocean/Global Atmosphere)?

ANSWER:

Despite reductions in one-time start up costs and increased international and NSF participation, Congress has continued to fund TOGA at a higher level than requested by the Administration. The FY 1988 request reproposes an adequate level of funding that will support the U.S. share of the program.

QUESTION:

SATELLITES

Which sensors will be eliminated as a result of your new approach to the Polar-orbiting Satellite system?

ANSWER:

No instruments will be eliminated as a result of our planning launch schedule revision, which now estimates that launches will occur on average every 15-16 months. Some spacecraft will be flown without the full instrument complement, but for reasons unrelated to the 15-16 month launch schedule:

1) Recognizing that ozone measurements, utilizing the SBUV/2 instrument, are meaningful only when adequate solar illumination exists, we will continue to fly this instrument on afternoon satellites only.

2) Several satellites will fly without a Stratospheric Sounding Unit (SSU), simply because there aren't enough instruments for each satellite. The United Kingdom (UK) procured instruments for flight on 8 (or 9 if one considers the engineering model instrument) satellites. Since there are 11 satellites in the TIROS N-NOAA A-J series, no SSU instruments will be available for two of these satellites. Fortunately, stratospheric temperatures are generally uniform and slow to change. This fact will allow us to utilize SSU data from one in orbit satellite, with sounding information from instruments flown at a different time of day, with little degradation in accuracy. (On the follow-on series, NOAA KLM, stratospheric soundings will be provided by the new AMSU instrument).

3) One spacecraft, NOAA D, is an older design and cannot carry the Search and Rescue instrument. NOAA is confident that Search and Rescue service continuity can be maintained with older spacecraft during the life time of NOAA-D, because the SAR is a hardy instrument and the failure of polar spacecraft meteorological instruments should not affect the Search and Rescue instrument.

QUESTION:

Landsats 4 and 5 have already survived past their design lives, and thus there is a likelihood that they can be operated inf FY 1988. In view of this, does the Administration plan to submit a budget amendment for their continued operation?

ANSWER:

There was no attempt to understate the cost of the Landsat program in 1987. There was no request for operating funds for Landsat 4 and 5 in FY 88 since the engineering information predicted that Landsat 4 and 5 would not be in operation in FY 88. The Department believed that the budget should not contain a request for funds that would probably not be required. The design lifetime of Landsat 5 of three years was passed on March 1, 1987. The Administration is currently reassessing Landsat commercialization alternatives and will be reviewing the operations of Landsat 4 and 5 in that context. We expect to present our recommendations to Congress shortly.

QUESTION:

NEXRAD DEPLOYMENT

Please list for the record where NEXRAD will be deployed in 1988 and the next 10 locations on NOAA's priority list for NEXRAD.

ANSWER:

The only NEXRAD unit to be deployed in FY 1988 will be the Preproduction Unit built by the selected production contractor. It will be installed at Norman, Oklahoma in FY 1988 for test and evaluation purposes, not for operational use.

While the production contractor will have been selected and the production line will be operating during FY 1988, the first productions units will not be deployed until FY 1989. The first 10 NEXRAD units are planned for deployment by the agency indicated in parenthesis at the following locations:

Oklahoma City, OK (NWS)	Frederick, OK (DOD)
Melbourne, FL (NWS)	ADW/DCA Washington, DC (FAA - TDWR)
Washington, DC (NWS)	NW Florida, FL (DOD)
Atlantic City, NJ (FAA training)	Sacramento, CA (depot) (DOD)
Kansas City, MO (NWS training)	St Louis, MO (NWS)

QUESTION:

MISSISSIPPI WEATHER RECONNAISSANCE FLIGHTS

We are informed that the Air Force is changing the mission of the Reserve Weather Reconnaissance Squadron at Keesler Air Force Base to an airlift mission. The Air Force will retain an active duty Weather Reconnaissance Squadron at Keesler. However, we are informed that the Reserve Unit leads the Air Force in Weather Reconnaissance experience and training and has provided 70% of all storm reconnaissance in the Atlantic, Carribbean and Gulf of Mexico. The Reserves flew 585 hours in calender 1986 in support of the National Hurricane Operation Plan and the National Winter Storm Operations plan.

The Air Force has stated that the restructured Weather Reconnaissance Fleet will provide the capability to meet or exceed NOAA's requirements as outlined in the Hurricane and Winter Storm plans. Does NOAA agree with that assessment?

ANSWER:

The Reserves at Kessler AFB flew 685 (not 585) hours in support of the National Hurricane (NHC) Center. This did not include hours flown for winter storm requirements. The new structure will have eight (formerly ten) aircraft dedicated to reconnaissance. Of these, two can be expected to be in standard depot level maintenance (SDLM) at any given time. This would leave six (6) available for NHC requirements. At the annual Hurricane Conference held in Miami, Florida January 1987, the Air Force assured NOAA that they would provide adequate coverage.

QUESTION:

Our report last year stipulated that the number of Hurricane Surveillance flights in 1987 made in support of the civilian weather community should be no less than was made in 1976. The Air Force has indicated that will not be a problem since 1986 was a very low-activity storm season and they say they are "equipped to meet all of DOC's stated requirements." I have uneasy feelings that the Air Force may be taking advantage of understated requirements by NOAA. NOAA must have a concern because we are told Dr. Neil Frank has said that the proposed changes will place the Gulf States in peril. Don't these changes remove a lot of confidence from our ability to track and forecast dangerous storms?

ANSWER:

NOAA has been assured by USAF that they will meet our reconnaissance needs for the Gulf, eastern states, eastern pacific and winter storms.

QUESTION:

The Air Force says their wartime reconnaissance needs can be adequately satisfied by weather radar or satellites. The American Meteorological Society has stated that the need for reconnaissance aircraft measurements remains despite the availability of remote sensing by satellites. Studies have shown that relying solely on satellite reconnaissance can result in margins of errors of up to 40 miles per hour in wind speed and as much as a 40 mile difference in exact location.

Do you agree with these statements?

ANSWER:

NOAA agrees with the American Meteorological Society that aircraft reconnaissance greatly improves accuracy of storm tracking. The forecast accuracy of satellite versus aircraft measurements is approximately 1,000 miles versus 200 miles. Aircraft measurements will be continued by USAF and NOAA on the East Coast, and by NOAA on the West Coast and near Hawaii. USAF's deactivation plan affects the

Western Pacific.

QUESTION:

NOAA PORT

Please explain the NOAA PORT concept that is in the NOAA Budget and describe the probable costs in the out years.

ANSWER:

NOAAPORT is being planned as a point-to-multipoint communications service that would provide a single access for users to real-time NOAA oceanographic and atmospheric data and analysis. Capabilities under consideration include distributing central guidance and forecasts from the National Weather Service, oceanographic observations and analyses, experimental research products, and platform data from the GOES data collection system to inexpensive user site equipment throughout the United States both to NOAA and to paying external (government and non-government) users. Also being considered is using NOAAPORT to provide a higher volume communications service to provide the point-to-multipoint data needed for the National Weather Service Advanced Weather Interactive Processing System for the 1990's (AWIPS-90).

The concept is under-review now, and we are developing cost options for various implementation strategies.

QUESTION:

GEODESY

In 1988 NOAA expects to complete 3,000 kilometers of releveling surveys. That is half the amount projected for 1987. The vertical network program is now expected to be completed in 1995. When would it be completed if we stay at 6,000 kilometers per year?

ANSWER:

The Vertical Network Program could be completed in 1993 if we stayed at 6,000 kilometers per year.

QUESTION:

SHIPS AND SHIP DAYS-AT-SEA

NOAA currently has a fleet of 23 ships of which 14 are active and are inactive. How many ships did NOAA have in 1981?

ANSWER:

At present, 21 NOAA ships are active. In 1981, NOAA had a total of 24 ships and all were active. We propose 14 active ships for FY 88.

QUESTION:

Where are the 9 inactive ships moored and what does fit cost to maintain them?

ANSWER:

Five of the ships would be moored at the Pacific Marine Center in Seattle, Washington, and four would be moored at the Atlantic Marine Center in Norfolk, Virginia. After the ships are deactivated, the expected annual maintenance cost is approximately $1.5 million.

QUESTION:

In what state are the inactive ships maintained? How long would it take to make them active?

ANSWER:

The level of maintenance for the proposed inactive ships will vary depending on the expected period of inactivity. The time required to activate would depend on the level of maintenance while inactive but it would typically require 1 to 6 months to activate a ship.

QUESTION:

How many Days-at-Sea did NOAA record in Fiscal 1981 and how many are expected in 1987 and 1988?

ANSWER:

In FY 81, NOAA accomplished 4673 days-at-sea (DAS). In FY 87, 4104 DAS are scheduled and in FY 88 2390 DAS are proposed.

QUESTION:

What research programs have lost the most Days-at-Sea since 1981?

ANSWER:

Due to changes in program requirements, the reductions in days-at-sea for various programs from 1981 to 1988 are as shown below:

Oceanocgraphic and Atmospheric Research
31

Environmental Monitoring
200

Mapping and Charting
932

Fisheries Research
1126

QUESTION:

The budget proposes laying up 7 additional vessels in 1988. In January, NOAA initiated a study of the feasibility and cost savings of using commercial charter vessels instead of NOAA ships. this study is expected to be completed in September. Why are you spending the money on a study if you already have decided to lay up 7 more ships?

ANSWER:

The marine services proposal to operate 14 more ships, lay-up 7 ships and reduce days-at-sea on 7 ships is not connected to the use of commercial charter ships instead of NOAA ships. It is the level of days-at-sea needed to operate NOAA's FY 88 programs. The study may in result further savings. If the use of charter vessels instead of NOAA's vessels is shown to be more effective, a reprogramming would be proposed to divert funds from active NOAA ships to charter vessels.

QUESTION:

How many ships and Days-at-Sea will we have in the Atlantic in 1987 and 1988? What is the same information for the Pacific?

ANSWER

The scheduled active NOAA ships and days-at-sea for the Atlantic and Pacific in FY 87 and the proposal for FY 88 are shown below:

	FY 87		FY 88	
	# active ships	DAS	# active ships	DAS
Atlantic	9	1624	7	1190
Pacific	12	2480	7	1200

QUESTION:

What is the optimum number of Days-at-Sea of a NOAA ship?

ANSWER:

The most efficient number of days-at-sea (DAS) for most NOAA ships is between 210 and 250 DAS, providing the lowest cost per day-at-sea while allowing time for ship maintenance and reprovisioning. The budget request for days-at-sea is not based on operating the fleet at optimum capacity, however, it is based on NOAA's programmatic need for ship time. The days-at-sea request for FY 1988 corresponds to the requested program levels for programs using ship time.

QUESTION:

Please provide a listing by vessel the number of Days-at-Sea budgeted in 1988?

ANSWER:

	OCEANOGRAPHER
DISCOVERER	180
RESEARCHER	150
SURVEYOR	110
RAINIER	150
MILLER FREEMAN	180
WHITING	180
TOWSEND CROMWELL	180
DAVID STARR JORDAN	180
DELAWARE II	180
FERREL	180
RUDE	180

HECK	180
CHAPMAN	180
	180

All other vessels would be inactive.

QUESTION:

THE NOAA CORPS

With growing emphasis for greater privatization and budgetary plans for vessel deactivation and use of private vessels and vessel support, are there any plans for reducing the size of the NOAA Corps? If not, why?

ANSWER:

No, there are no plans to reduce the size of the NOAA Corps. In fact more billets exist throughout NOAA for Corps officers than there are officers to fill these billets.

QUESTION:

While not clearly presented in the budget, what are the annual costs of the 360 plus officers of the NOAA Corps? ($23 million)

ANSWER:

$23.475 million for FY 1987. The only changes for FY 1988 are the statutory entitlement increases totalling $2.4 million.

QUESTION:

A. What opportunities exist for civilianizing the NOAA Corps? Has NOAA performed any cost comparisons between civilian and NOAA Corps Personnel? If so, what are the cost differences? If not, why?

B. If in the future all vessel support was performed by the private sector, would there be a need for the NOAA Corps? If so, why?

ANSWER:

A. None. Yes, in the A-76 process. The results of these comparisons have shown the NOAA Corps to be more cost effective than "civilianizing" their responsibilities.

B. Yes, NOAA Corps officers do much more than just staff the NOAA fleet, in fact at any given time only 1/3 of the Corps are assigned to sea duty. The NOAA Corps supports all of NOAA's programs in many ways. NOAA Corps officers are valuable assets regardless of where they are stationed.

QUESTION:

CATFISH FARMING AT STUTTGART, ARKANSAS

NOAA again proposes not to support the catfish farming facility at Stuttgart, Arkansas. The justification indicates that the Department

of the Interior supports the facility.

NOAA has $425,000 for Stuttgart in 1987, how much is Interior putting into the facility?

ANSWER:

In FY 1987, the Department of Interior's Fish and Wildlife Service (FWS) is providing funds for the Stuttgart, AR, facility of approximately $335,000. This support is in addition to the funding ($425,000) transferred by NOAA to FWS for that facility. In the Administration's proposed FY 1988 budget, NOAA would not provide any support for operation of the Stuttgart facility. Funding provided by FWS in FY 1988 would amount to approximately $325,000.

QUESTION:

DEFICIT REDUCTION RESTORATION

A base adjustment of $4,546,000 is reqeusted to restore funds NOAA lost pursuant to Section 2901 of the Deficit Reduction Act of 1984. That was four years ago.

A. How has NOAA been covering this gap in the interim?

B. Has NOAA previously asked that these funds be restored?

C. Why is this request being resubmitted? Doesn't NOAA want to help reduce the deficit?

ANSWER:

A. The reduction was allocated to the NOAA Line Offices on a prorata basis and they are operating at a reduced level of effort.

B. Yes. These funds were also requested in the FY 1987 Congressional budget estimates.

C. This was meant to be a one-year reduction.

QUESTION:

ABSORPTION OF PAY COSTS

NOAA is fully absorbing the $9,727,000 cost of the 3% pay increase in 1987. We hear that is to be accomplished by a reprogramming that does not affect congressional add ons.

We are in the sixth month of the Fiscal Year and have not received a reprogramming notice. How can NOAA's managers operate until the reprogramming is cleared and they know what they will really have to work with in 1987?

ANSWER:

NOAA managers are confident that a reprogramming or other appropriate management action will be approved and funding for pay will be available.

QUESTION:

Your $9.4 million proposal for the pay raise is based on the personnel reductions recommended by the Administration. How much funding would be required for the pay raise in FY 1988 if we assume that NOAA personnel levels will not be reduced?

ANSWER:

Assuming no change in priorities or staff, an additional $735,000 would be required.

QUESTION:

RELOCATION INCOME TAX ALLOWANCE

Adjustments to base include $689,000 to reimburse employees for additional taxes incurred as a result of increased income due to the vouchering of taxable permanent change of station benefits.

A. Are you raising money for the IRS?

B. If employees are reimbursed for the actual cost of their moves, where is the income to be taxed?

ANSWER:

A. No, we are reimbursing the employees for taxes paid as a result of some permanent change of station benefits being taxable. This practice is in accordance with P.L. 98-151.

B. Employees are reimbursed only for the actual costs paid or incurred. However, when reimbursements were made taxes were withheld. The Relocation Income Tax Allowance reimburses the employee for the additional tax liability incurred as a result of the relocation expense reimbursements received in the prior year.

QUESTION:

A-76 SAVINGS

Since FY 1982 $14 million has been cut from NOAA's base in anticipation of A-76 savings, but only a fraction of the anticipated savings has actually been achieved. Given this, what is your justification for asking for another $1 million in A-76 cuts for FY 1988?

ANSWER:

The estimated A-76 savings in the FY 1988 budget of $1 million were based on NOAA's current inventory of 32 studies involving 1,502 FTE. Of those studies, 24 are scheduled to be completed by the end of FY 1988 and provided the basis for the proposed $1 million in A-76 savings.

QUESTION:

WALLOPS ISLAND

What is the status of the lawsuit by the National Weather Service

employees organization concerning the possibility that NOAA's A-76 cost comparison will result in contracting out the satellite ground station operations at Wallops Island, Virginia?

ANSWER:

On December 17, 1987, the union representing the Wallops Command and Data Acquisition Station filed a complaint against NOAA to prevent further efforts to contract out operations under OMB Circular A-76. The case is Docket Number 86-3455 entitled National Weather Service Employees Organization, Region 8, vs. Anthony J. Calio, Administrator, NOAA. On January 12, 1987, the union moved for Summary Judgement (to stop the A-76 study) stating that such efforts violated the Land Remote Sensing Commercialization Act of 1984. On March 6, 1987, the Government cross-moved for summary judgement to have the case dismissed. On March 19, 1987, the plaintiffs notified the Government of their opposition to the Government's motive for cross-summary judgement.

The Government is now preparing its answer. No hearing date has been set. It may be that a decision will be delayed until the cost comparison is completed about July 2, 1987.

QUESTION:

FINANCIAL SERVICES POSITIONS

Sixteen financial services positions are deducted from NOAA's base as part of the proposed Centralized office of Grants and Loans Administration. That office was to be funded by using unobligated EDA Funds.

A. If the EDA rescission expires as expected next week, what happens to the plans to establish the Grants and Loans Office?

B. If there is no centralized office, what happens to the 16 positons since there is no money for them in the base?

ANSWER:

A. The FY 1988 budget request still assumes the Grants and Loans Office will be established.

B. If there is not a Grants and Loans Office, the positions associated with the administration of fisheries financial services would continue to be funded by the National Marine Fisheries Service as long as the need exists.

QUESTION:

East Coast Ship Consolidation

In 1980 NOAA made a study of the feasibility of establishing a consolidated base on the Atlantic Coast for the ships. What would be the current costs of establishing that consolidated base?

ANSWER:

Based on a study completed in 1980, the estimated cost to develop and occupy a base in Charleston was $33.5 million in 1980 dollars. This estimate included facilities to support all East Coast NOAA ships except those which home port in Woods Hole, Massachusetts and Pascagoula, Mississippi. Also included in the estimate are costs associated with data processing, mobile field unit home base, and related facilities now located at the Atlantic Marine Center in Norfolk. It would be necessary to reassess the accuracy of the assumptions underlying the 1980 study (including site availability before we could determine changes to the estimates for other than inflation.

QUESTION:

The 1988 budget proposes the closing of the Southeast Marine Support Facility in Miami. Where will the Atlantic-based ships operate from? How many of their 1988 missions will be to the North Atlantic and to the South Atlantic?

ANSWER

The NOAA Ship RESEARCHER is presently the only NOAA ship homeported at the Southeast Marine Support Facility. The RESEARCHER home port will be moved to the Atlantic Marine Center in Norfolk, Virginia. The RESEARCHER will continue to import at Miami for the staging of the Atlantic Oceanographic and Meteorological Laboratories (AOML) projects.

The FY 1988 president's budget estimates that approximately 1190 days-at-sea will be required for programs in the Atlantic and Gulf of Mexico. The homeport for these ships are Norfolk, Virginia, Woods Hole, Massachusetts, and Pascagoula, Mississippi.

QUESTION:

Mr. Calio, what would you think of having all the Atlantic coast ships consolidated at Charleston?

ANSWER:

If consolidation of the Atlantic coast ships would prove more efficient and cost effective, I would favor it in any suitable location.

QUESTION:

Landsat

Last week the Secretary of Commerce told us that the Department has a new Landsat proposal at OMB.

A. Is there anything that you could tell us about that proposal?

B. How much is in NOAA 1988 Budget for Landsat?

ANSWER:

A. At the present time, commercialization alternatives are under review within the Administration. We expect to provide our recommendations to Congress shortly.

B. NOAA has requested a total of $62.6 million for Landsat commercialization in 1988.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR INOUYE

QUESTION:

The Sea Grant Program is this nation's principal source of university research in the coastal ocean ad the nation's estuaries, and is a primary national resource in the areas of water quality, aquaculture, biotechnology, seafood and marine products, fisheries recruitment and production, ocean and coastal engineering, and marine policy. The Sea Grant Program has a distinguished record of contributions to the national economic well being and is one of few national activities with a considerable technology transfer and education capacity linked to research.

Sea Grant is complemented by the highly successful NOAA Underwater Research Program (NURP). Once again, the administration proposes to eliminate Sea Grant and NURP.

How do you intend to fill the vacuum resulting from the termination of Sea Grant and NURP?

ANSWER:

The FY 1988 budget maintains a significant program of oceanic research (both in-house and extramural) in support of NOAA mission responsibilities to:

- determine the role of oceanic processes and dynamics in climate variability;
- provide a sound scientific basis for the management and use of coastal, estuarine, and Great Lakes waters;
- support NOAA's fisheries management, development, and conservation responsibilities, including an investigation of the oceanographic factors affecting fishery recruitment; and
- predict hazardous or special environmental conditions (e.g., winds, waves, sea ice).

NOAA does not deny that undersea research can contribute to programs in ocean science. Overall budget constraints force us, however, to limit Federal spending to those highest priority research needs which are clearly the responsibility of the Federal Government. We believe that most of the activities currently supported by the National Undersea Research Program (NURP) primarily benefit State, regional or private sector interests and should, therefore, be supported by those principal beneficiaries, not the general taxpayer.

QUESTION:

As in previous years, the greatest portion of the administration's budget cuts fall on NOAA's ocean programs, to a point where the ocean and related scientific activities of NOAA are reduced to secondary or even residual functions.

A. Are proposing that the "O" be taken out of NOAA?

B. What is your opinion on separating ocean programs from NOAA and making it a separate account under the Department of Commerce?

C. There has been much discussion about making NOAA an independent agency. What is your opinion on this proposal?

ANSWER:

A. Absolutely not, however, we are attempting to more closely integrate our ocean and atmospheric research and to determine what effects each has on the other. It also needs to be understood that many of the dollars spent in the satellite budget have significant use by NOAA's oceans programs.

B. I definitely feel that the ocean programs should remain where they are. I also feel that the new budget structure of NOAA much more accurately reflects our programmatic activities.

C. In 1983 Senator Roth introduced legislation which would have created a separate Department of Trade and Industry and an independent NOAA. At that time, I favored that legislation. But this is a very complex issue and I currently do not support a change to either the trade organizations or in the status of NOAA as part of the Department of Commerce. Our top priority is to work closely with Congress to improve the competitiveness of American industry ensuring that existing trade laws are enforced and by making appropriate changes to those laws as needed. Likewise, I do not believe that creating an independent NOAA will result in either substantially changed views within the Administration on the appropriate level of funding for NOAA or that there will be an increased effectiveness in NOAA's ability to carry out its missions. NOAA, just as the rest of the Department of Commerce and the Federal Government, must deal with severe funding restrictions. NOAA has to focus its efforts on those activities which are part of its mission and provide the greatest benefits to the greatest number of the taxpayers.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BUMPERS

QUESTION:

Fort Smith, Arkansas, Radar Facility. Dr. Calio, I need your assistance with a problem that has been identified with the Fort Smith, Arkansas, National Weather Service radar facility. Fort Smith is a prime target of many tornadoes that rumble from the central plains eastward into Arkansas. It has been reported that there is a significant "blind spot" in the northwest quadrant of the radar sweep form Fort Smith. I invite your attention to this op-ed piece that appeared in the Southwest Times Observer (attached). As you will note, this problem has caused some consternation in the Fort Smith community.

Will you please have the National Weather Service devise a plan to address this problem as soon possible? If no immediate solution is available, would it be possible to have a NEXRAD (Next Generation Radar) facility placed in Fort Smith? I am willing to work with the distinguished Chairman and Ranking Minority Member of the Subcommittee to ensure sufficient funding for the National Weather Service to address this problem. Would you please be so kind as to keep me informed of the progress you are making in devising a plan that ensures that the problem at Fort Smith is corrected?

ANSWER:

The editorial in the February 8, 1987, edition of the Southwest Times Record concerning radar coverage in the Fort Smith, Arkansas, area correctly notes that there is limited terrain masking of the Fort Smith radar by Lee Hill in the northwest quadrant. Unfortunatley, the editorial implies that this effect prevents the radar from detecting severe storms approaching from that direction and includes other misleading and erroneous statements which should be corrected.

Blockage of weather radar signals by Lee Hill occurs only at very low elevation angles and does not impair normal operation. The present Fort Smith local warning radar does operate in an elevated mode at approximately 1.5 degrees in the vicinity of Lee Hill. The resultant elevation of the radar beam through that part of the warning area is between 5 and 15 thousand feet. At these elevations convective activity and associated severe storms are detected without difficulty. The assertion, in the editorial, that most damaging weather occurs below 2000 feet is not correct. A thunderstorm's severity generally correlates directly with its height. Stronger storms have shown up particularly well at the un-obstructed elevations at which the radar normally scans. Limitations of radar detection capability occur only for conditions of widespread, light-to-moderate rainfall at very low altitudes. In the case of the tornado which struck the Cedarville school, the storm's northwesterly approach was detected in the early morning and a warning had been issued approximately 25 minutes before it struck.

Relocation of the radar antenna to a higher point could reduce or eliminate the terrain-masking effect, but it would sharply increase

reflections ("clutter") from other hills and man-made structures newly visible from the higher location. It is difficult to separate these clutter signals from weather signals and the higher location allows clutter signals to be reflected from hills at greater distances. For these reasons the higher position for the radar antenna in situations such as at Fort Smith is rarely the best solution. In addition to moving costs, relocation would also require the purchase and installation of microwave transmitting and receiving equipment to relay the radar signals to the Fort Smith weather office for analysis and evaluation.

A key element of long range National Weather Service plans for improved warning and forecasting services in the Fort Smith area is the deployment of the Next Generation Weather Radar (NEXRAD) system. As an integrated network of Doppler radars, the system has been designed to achieve earlier warnings of tornado threats by reliable detection of mesocyclones, which are meteorological precursors of tornadoes. NEXRAD's effective range for mesocyclone detection is 150 kilometers or about 95 statute miles. Other types of severe weather such as hail and convective storms can be reliably detected at 230 kilometers or about 140 statute miles.

The preferred siting of the Doppler radar to provide the most effective severe weather coverage locates the radar well outside the city and in the prevailing approach direction for severe storms. The planned NEXRAD installation at Tulsa, Oklahoma, about 88 miles northwest, is well suited to provide a warning and detection capability for severe thunderstorms and other types of severe weather approaching Fort Smith from the west and particularly the northwest sector mentioned in your inquiry as a primary concern. Since weather data generated by a NEXRAD site will be accessible to all other NEXRAD installations, the Fort Smith area will also receive supplementary weather radar coverage from NEXRAD radars planned for Springfield, Missouri (150 miles northwest) and Little Rock, Arkansas (127 miles east-southeast).

Relocation of the local warning radar to a different site would provide minimal improvement in coverage and no change in performance. Relocation does not appear to be justified when measured against the significant costs in resources, service interruption, and loss of coverage during the transition. I believe that the introduction of modern Doppler radar provides the better solution and, particularly when combined with real time satellite data and other new technologies planned by the National Weather Service, will provide improved severe weather warning and forecasting capability to Fort Smith and surrounding areas. I will be pleased to keep you informed of our progress with these important additions and any future changes in our plans.

QUESTION:

Stuttgart Fish Farming Experimental Station. What funds are requested in the National Marine Service line item for the Stuttgart, Arkansas Fish Farming Experimental Station? As you know, Congress appropriated $425,000 for this facility last year, of which $50,000 was for a feasibility study for renovation and remodeling of this facility. This feasibility study is now complete, and a plan has been developed by the U.S. Fish and Wildlife Service to renovate the

existing facility.

Do you agree that with a $3 billion per year trade deficit for edible fish products we need to place additional resources in the development of fish farming through the NMFS?

ANSWER:

The proposed FY 1988 Budget does not provide for any NOAA support of the Stuttgart, Arkansas, facility operated by the Department of Interior's Fish and Wildlife Service. The FY 1988 budget request for the Department of Interior includes approximately $325,000 for the Stuttgart facility.

The private sector will make investments in fish farming and seafood culture systems when economic potential justifies such actions without continuing federal support. Further, NOAA marine fisheries mission is not related to this freshwater activity. Funding it in the NOAA appropriation is inappropriate.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

QUESTION:

The Landsat program has great intrinsic value for competitiveness, research and National security. Landsat provides valuable environmental, agricultural, scientific and energy information which has opened up new energy sources, maximized crop yields and tracked major weather patterns. Landsat provided our first look at the Chernobyl disaster.

We are faced with the imminent loss of this valuable service unless agreement can be reached on how to implement a viable commercialization plan. What specific commitments can NOAA make to support this goal?

ANSWER:

The 1988 President's Budget requests funding to support one additional satellite to promote commercialization of Landsat. Following disapproval by the Senate Appropriations Subcommittee of this one-satellite plan in January, DOC has been investigating other possibilities. However, we do not have the resources within the Department's budget to increase the funding for the program above the President's Budget. A proposal for a revised Landsat program is currently under review within the Administration.

QUESTION:

After the Congress indicated its disapproval of the Landsat Commercialization plan submitted by the Department in December 1986, NOAA reviewed options for continuing commercialization. On March 4, 1987, a revised commercialization proposal was forwarded to OMB and is under review by the Administration. In this proposal, as in the original proposal, the plan which Commerce has submitted to OMB calls for two spacecraft and a ground station, as provided for in the original EOSAT contract. We are at a critical point in our efforts to sustain Landsat -- If no agreement is reached within the next few weeks, the start-up costs EOSAT will face to mount a competitive challenge to the European's SPOT Image and the Japanese System will rise substantially. What efforts are being made at NOAA and Commerce to urge OMB to approve the plan expeditiously? When can you assure us a decision will be made?

ANSWER:

A proposal for a revised Landsat program is currently under review within the Administration and we are proceeding as expeditiously as possible.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BYRD

QUESTION:

IFLOWS

On December 9, 1985, I secured an amendment to the Fiscal Year 1986 Continuing Resolution which was designed to expand the IFLOWS flash-flood warning program beyond the original 16 counties into the counties ravaged by the November, 1985 floods. This legislation was signed into public law by the President on December 19, 1985. On December 20, 1985, I wrote to the Secretary of Commerce, urging that the IFLOWS program expansion in West Virginia be implemented as quickly as possible. Secretary Baldrige responded on January 27, 1986, with a schedule for implementation which included a proposed transfer of funds to the participating States through cooperative agreements by the summer of 1986 so that the procurement and installation of equipment could be initiated.

On August 7, 1986, a federal grant in the amount of $1 million was awarded by the National Oceanic and Atmospheric Administration to the state of West Virginia to continue installation of the IFLOWS program.

On October 10, 1986, I contacted the appropriate state officials and strongly urged the timely execution of the federal grant of $1 million so that the IFLOWS system could be installed as quickly as possible and provide much needed advance warning to West Virginians living in flash-flood prone areas. In response, I was advised that a meeting between NOAA staff and the West Virginia State Department of Emergency Services would take place on November 24 and 25 of 1986.

The fiscal year 1987 Continuing Resolution included an amendment, at my request, which provided $650,000 to complete the IFLOWS project in West Virginia.

A. What is the latest status of this program?

B. Once the grant is made to the State, it is the responsibility of the West Virginia Office of Emergency Services to implement the program. NOAA staff visited the West Virginia Office of Emergency Services last November. Is there anything else your staff can do to accelerate the implementation of this program?

C. Is additional NOAA funding needed? I was advised last year by NOAA staff that the $650,000 I secured would be sufficient to complete the system in West Virginia.

D. Is additional NOAA help or technical assistance to the State needed to accelerate this project?

E. Would you clarify what is needed and what NOAA is prepared to do in response to my concerns?

F. There have been some news accounts about problems with water freezing in the rain gauges, corrosion, insects, wildlife, contractors who occasionally unearth the gauges and people who destroy ro remove the gauges. Correction of these problems comes under the jurisdiction of the State, does it not? Is there anything NOAA can do to assist the State with this problems?

ANSWER:

A. The original counties (Logan, McDowell, Mingo, Wyoming) all have IFLOWS equipment installed. Logan and Mingo Counties are operational. McDowell and Wyoming Counties are awaiting the installation of microwave equipment by the West Virginia Emergency Medical Services (EMS). The microwave equipment is not funded by the Federal Government but is a statewide, state-funded communications network which depends on outside contractors to accomplish the installation. The installation for McDowell and Wyoming Counties is expected to be completed by June 1987.

Of the first expansion counties, Fayette, Greenbrier, Jackson, Kanawha, Raleigh, Putnam, and Wayne are fully operational. Boone County is awaiting the microwave installation described above. Cabell and Mason Counties are expected to become operational in May 1987 when rain gages are installed. Pocahontas County requires a radio repeater to become operational that is expected to be installed by June 1987.

The $1,000,000 provided to West Virginia in 1986 was to implement IFLOWS in areas affected by the November 1985 flood disaster. Equipment for seventeen counties has been put out for bid and awards are expected to be made in mid-April. A contract for installation of this equipment will be awarded by the end of March. The counties included in these activities are: Barbour, Berkeley, Braxton, Doddridge, Grant, Hampshire, Hardy, Harrison, Jefferson, Mineral, Nicholas, Pendleton, Preston, Randolph, Tucker, Upshur, and Webster Counties. Delivery of the necessary equipment should be accomplished by the end of May, and installation should commence at that time.

The NWS has developed a preliminary plan in cooperation with the West Virginia Office of Emergency Services to implement IFLOWS in the additional 12 counties of Calhoun, Gilmer, Lewis, Marion, Monongalia, Monroe, Morgan, Marshall, Ohio, Summers, Taylor, and Tyler. These are part of the original 29 counties affected by the November 1985 floods. The state has received agreements from Calhoun, Gilmer, Lewis, Monroe, Summers, Taylor, and Tyler to participate. NOAA/NWS expects to have a cooperative agreement for transferring $650,000 to West Virginia for accomplishing this expansion by the end of March. Details dealing with communications design and specific equipment requirements are now being coordinated with the West Virginia Offfice of Emergency Services.

B. Although it is primarily the responsibility of the West Virginia Office of Emergency Services to implement the program, NOAA/NWS staff is continuously monitoring and giving

technical advice in accomplishing various aspects of the implementation. The speed at which implementation tasks are accomplished is dependent on response from vendors providing equipment, permission from landowners to utilize equipment sites, schedule for installation of the state microwave system, and response and cooperation received from county offices. Since these are primarily state functions, NOAA/NWS is limited to monitoring the completion of these tasks.

C. Adequate funds are available in the FY 1987 budget to complete the 29 West Virginia counties affected by the November 1985 floods.

D. The complexity of designing a workable communications system in the mountainous terrain of West Virginia requires many time-consuming mathematical calculations, equipment evaluation, and technical specification writing. These functions are labor intensive. NOAA/NWS and the State are working together as effectively as possible to complete the tasks using existing resources.

E. The most important elements of IFLOWS is completing the statewide microwave communications system which West Virginia has partially built. This system is planned to extend to all IFLOWS counties, Since it will take sometime to develop this system, NOAA/NWS is designing alternative communications which will serve IFLOWS communities until the microwave system eventually is in place.

F. Although the State is responsible for correcting problems described above, NOAA/NWS has been aware of the various environmental and mechanical problems associated with the IFLOWS gauges. As problems are identified, they are included in revised specifications when requests for new gauges are contracted. This process has resulted in the improvement of gauge features offered by manufacturers.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR RUDMAN

QUESTION:

Last year year I accused the Administration of taking the "O" out of NOAA and turning it into a zero; this year it looks like they've replaced the "O" with an "S" for satellites. However, even with the $92.6 million worth of increases, you seriously understate the cost of your satellite budget. Number 1, you assume that the current Landsat satellite will not be operating in FY 1988 and so you reduce funding by $23.6 million for program operations. If Landsat 5 continues to operate in 1988, how will you pay for operating expenses? Reprogrammings from the ocean, coastal, and fishery programs? Was this a deliberate attempt to understate the cost of the total Landsat program in 1988?

ANSWER:

There was no attempt to understate the cost of the Landsat program in 1987. There was no request for operating funds for Landsat 4 and 5 in FY 88 since the engineering information predicted that Landsat 4 and 5 would not be in operation in FY 88. The Department believed that the budget should not contain a request for funds that would probably not be required. The design lifetime of Landsat 5 of three years was passed on March 1, 1987. The Administration is currently reassessing Landsat commercialization alternatives and will be reviewing the operations of Landsat 4 and 5 in that context. We expect to present our recommendations to Congress shortly.

QUESTION:

Number 2, NOAA originally intended launching the next 5 geostationary weather satellites from Florida on the Space Shuttle at a total cost of $109 million, or a little over $20 million per launch. Obviously, that's out of the question now and you'll probably have to launch them on much more costly expendable launch vehicles. In fact, launch costs could easily quadruple, leaving a shortfall in 1988 funding of approximately $30 million. What plans have you made for dealing with this problem? How do you intend to pay for any funding shortfall that may develop?

ANSWER:

The $109 million requested in the President's budget (1987-1991) covers only the first 3 GOES launches, not all five launches. NOAA is in the process of releasing a launch services procurement for bidding. This launch contract for the first three geostationary satellites should be signed this summer. At that time, we will have a better estimate of cost. It should be noted that through FY 88, $59.6 million has been requested for launching geostationary satellites. This sum should be sufficient to start the procurement effort.

QUESTION:

You've proposed the establishment of a $6 Federal permit to fish in marine waters. Upon enactment, you're prepared to request an additional $29 million to restore various fishery programs. How would this program work? What would be the State share of the revenue from the fishing fee?

ANSWER:

In 1988, Federal stamp, permit, and conservation fees would yield an estimated $99 million. The states and Federal Government would each net approximately $45 million.

The monies to the states would be distributed in relation to the stamp, permit, and conservation fees collected in each state. The states would be required to allocate their funds between commercial and recreational-related research enhancement on the basis of the monies collected from each group.

Upon enactment of the fish license legislation, the Administration would request an additional $29 million in fisheries programs in anticipation of increased Federal revenues. Proposed budget line item allocations are:

Resource Information	$17.1 million
Fishing Industry Information	6.1 million
Information Analysis	3.2 million
Fishery Management	1.1 million
Habitat Conservation	1.4 million
	$28.9 million

QUESTION:

If the Landsat contract is terminated, what funds would be available in 1987 to either provide for other supplemental needs or to offset the 1988 shortfall? What would be the savings in 1988? What would be the combined savings available from 1987 and 1988 to reduce the $250 million increase?

ANSWER:

If the Landsat commercialization contract with EOSAT is terminated, the $27.5 million included in the DOC FY 87 Continuing Resolution would be available for reprogramming. In addition, we would not reprogram $35 million from the Polar Orbiting Program to Landsat in FY 87, thus allowing us to reduce the FY 88 Polar Orbiting Program request by $35 million (from $84.7 million to $49.7 million). We also would not need the $62.6 million requested for Landsat Commercialization in FY 88 nor the $44.1 million included in the President's budget estimates for FY 1989.

QUESTION:

On December 16, 1986, the Commerce Department submitted a Landsat commercialization plan to the Committee. The plan consisted of a cover letter and three pages of backup material. Do you consider

this an adequate explanation for a program that would have cost the taxpayers a minimum $259 million?

ANSWER:

The material submitted to the Committee on December 16, 1986, was presented in an "overview" format with the primary focus being the funding arrangements. The technical plan, except for the change from two satellites to a single satellite, is essentially the same as the original Landsat contract of September 1985. Following submission of the plan, the Department provided briefings for Congressional staff on the details of the plan.

QUESTION:

You've now submitted to OMB a revised Landsat commercialization plan involving 2, rather than 1 additional satellite. How much would this plan cost, including launch costs? Does EOSAT agree with this estimate? Does the plan involve the commitment of funds by EOSAT, or by any other Federal agency, such as the Defense Department?

ANSWER:

We are currently reassessing commercialization alternatives and are not at liberty to discuss proposals that are pending within the Administration. We expect to present our recommendations to Congress shortly.

QUESTION:

You are requesting an increase of $14 million, from $42 million, for the Next Generation Doppler Weather Radar, or NEXRAD program. This program promises to dramatically improve weather prediction and monitoring of severe weather events such as thunderstorms and tornados. However, I understand NOAA intends to use a portion of the funds appropriated for NEXRAD in 1987 to help meet the pay shortfall of $10 million. Is that true? Will we be required to appropriate additional funds in 1988 or 1989 to accommodate this reprogramming?

ANSWER:

While the NEXRAD program has slipped to allow for further testing of prototype systems, there are no final plans for use of any available NEXRAD funds in 1987. We do not anticipate any requirement for additional appropriations in either 1988 or 1989, for NEXRAD.

QUESTION:

In 1987, the Congress provided $63.6 million for the Ocean and Great Lakes Programs of the Office of Oceanic and Atmospheric Research. The Administration's budget would reduce this to $10.4 million, including the elimination of Sea Grant and undersea research. Doesn't this proposal mean the abandonment of oceanic research by NOAA?

ANSWER:

No; the FY 1988 budget maintains a significant program of oceanic

research (both in-house and extramural) in support of NOAA mission responsibilities to:

- determine the role of oceanic processes and dynamics in climate variability;
- provide a sound scientific basis for the management and use of coastal, estuarine, and Great Lakes waters;
- support NOAA's fisheries management, development, and conservation responsibilities, including an investigation of the oceanographic factors affecting fishery recruitment; and
- predict hazardous or special environmental conditions (e.g., winds, waves, sea ice).

NOAA does not deny that undersea research can contribute to programs in ocean science. Overall budget constraints force us, however, to limit Federal spending to those highest priority research needs which are clearly the responsibility of the Federal Government. We believe that most of the activities currently supported by the National Undersea Research Program (NURP) primarily benefit State, regional or private sector interests and should, therefore, be supported by those principal beneficiaries, not the general taxpayer.

QUESTION:

In 1982, a dramatic and widespread change in wind patterns and sea temperatures occurred in the South Pacific. This cyclical disturbance, known as El Nino, produced massive fish losses and droughts in various parts of the world, including North America. It seems to me an understanding of this phenomenon would be extremely helpful in preparing for the next event. However, NOAA is proposing to reduce the research on El Nino by $3 million. Why?

ANSWER:

Despite reductions in one-time start up costs and increased international and NSF participation, Congress has continued to fund TOGA at a higher level than requested by the Administration. The FY 1988 request reproposes an adequate level of funding that will support the U.S. share of the program.

QUESTION:

NOAA is proposing to reduce from 6,000 kilometers per year to 3,000 kilometers per year the annual releveling activities associated with the vertical control network of the geodesy program. This sounds very esoteric, but it could affect the accuracy of NOAA's aeronautical charts. As a pilot, that bothers me. It it really worth the savings of $500,000 to reduce the scope of this program?

ANSWER:

The availability of precise three dimensional electronic navigation systems for aircraft which reference the printed geographic information contained on NOAA's aeronautical charts necessitates the utmost accuracy from the national geodetic reference systems. The

completion of the readjustment of the horizontal datum in 1986 and the pending readjustment of the vertical datum will provide for a unified, distortion-free, common frame of reference for the pilot and aircraft's electronic navigation equipment. The importance of this reference system is further amplified by the FAA's request to NOAA for the establishment of very precise three dimensional points at every airport and known obstruction. The reduction in funding, however, will only delay the readjustment of the vertical portion of the three dimensional reference system.

QUESTION:

Last year we discussed the fact that the Navy was requesting $30 million to build a research ship to meet unfilled oceanographic research needs. Congress accepted this proposal in the 1987 appropriations act for the Department of Defense. Is that why you are proposing to deactivate 7 of NOAA's active fleet of 23 ships, and reduce days at sea for 7 others?

ANSWER:

Our proposal to operate 14 ships and deactivate 7 active NOAA ships is based on the days-at-sea requirements to meet NOAA's FY 1988 program requirements. The proposal is not related to the construction of a new Navy oceanographic ship.

QUESTION:

NOAA is proposing to contract with private vessels rather than maintain its fleet of 7 fisheries research ships for a savings of $7.2 million. However, the study for the feasibility and potential cost savings for using commercial charter vessels will not be completed until September. How could you estimate cost savings before the study was complete?

ANSWER:

The marine services proposal to operate 14 ships, lay-up 7 ships and reduce days-at-sea on 7 ships is not connected to the use of commercial charter ships instead of NOAA ships. The proposed 14 active ships will provide the necessary days-at-sea for NOAA's FY 1988 program. If the use of charter vessels instead of NOAA vessels is shown to be more effective, reprogramming would be requested to direct funds from active NOAA ships to charter vessels.

QUESTION:

For modernizing the weather service, including procurement of the Next Generation Doppler Weather Radar, or NEXRAD, the Congress provided $58 million in 1987. You are proposing a total of $86 million in 1988. From 1988 through 1992, what will be the cost of the weather service modernization program? Has NOAA developed a plan to integrate these systems into the weather service? If so, will you be providing this plan to Congress?

ANSWER:

The cost of the three major systems for modernizing the National

Weather Service (ASOS, AWIPS, and NEXRAD) is projected to be $531.9 million for FY 1988 to FY 1992. In addition, a plan is currently under development that will address not only the major technologies for modernization, but also the need to restructure the National Weather Service to take full advantage of the new technology in a cost- effective manner. This plan will be forwarded to Congress shortly.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR WEICKER

QUESTION:

NURP

Once again the FY 1988 budget proposes to terminate the National Undersea Research Program. The rationale is firstly that NURP's activities are not central to NOAA's mission, and secondly, that they are largely of state and regional concern.

The Undersea Science Program refutes both of these arguments. Plans call for carrying out the undersea research for understanding oceanographic processes in the near-shore and throughout the Exclusive Economic Zone. This is clearly central to NOAA's mission. In FY 1986 NOAA collaborated with four Federal agencies and at least four other countries, including studies with France and Mid-Atlantic Ridge Processes, and with Canada on a Gorda Ridge Project, and there is already a joint U.S./Japan mission on the long-term effects of hostile environments on the human body scheduled for the new habitat in the Caribbean.

This country gets a lot from NOAA's $10.6 million Undersea Research Program, but it is still underfunded. The Japanese Government spent $28 million on submersible research and development alone.

A. How can NOAA refute the importance of Undersea Research to national and international science?

B. Where else could U.S. agencies go, including NOAA, to continue the Undersea Research that they have been doing with NURP?

ANSWER:

A. NOAA does not deny that undersea research can contribute to programs in ocean science. Overall budget constraints force us, however, to limit Federal spending to those highest priority research needs which are clearly the responsibility of the Federal Government. We believe that most of the activities currently supported by the National Undersea Research Program (NURP) primarily benefit State, regional or private sector interests and should, therefore, be supported by those principal beneficiaries, not the general taxpayer.

B. We expect NSF and the Navy to continue support for the deep submersible ALVIN and continue to make it available for undersea research. Similarly, the Navy has recently indicated that their deep submersible, the Sea Cliff, will also be available for limited use by civilian agencies. U.S. agencies, including NOAA, can also gain access to shallow-water submiersibles and Remotely-Operated-Vehicles (ROV's) directly from private sector firms when needed to support high-priority research missions. In addition, we hope that the individual programs currently receiving NURP funding will obtain sufficient funds from other sources to maintain the facilities they currently operate and make them available for

research.

QUESTION:

ESTUARINE RESEARCH

The Clean Water Act established a national estuaries program which is set up to fund comprehensive research and management in critical estuaries across the country. Eleven estuaries have initially been given priority consideration for "national estuary status," one of them being Long Island sound. The Act directs NOAA to conduct research in these estuaries and to establish an Estuarine Programs Office to coordinate Federal agency actions.

Why, at a time when NOAA should be expanding its role in estuarine research, is the agency scaling down funding in its existing programs such as Status and Trends?

ANSWER:

The decrease in the Status and Trends program is justified because of the relatively high cost of field data collection programs compared to immediate benefits. Field work of the program will be eliminated. However, activities will continue in (1) water quality sampling and modeling of mid-Atlantic and Gulf of Mexico coastal waters; (2) applied research and assessments of the consequences of contaminants on coastal and estuarine environmental quality (particularly the effects of toxic compounds on the reproductive capabilities of fish population); (3) generic ocean disposal assessment and research activities; and (4) the NOAA quality assurance program for environmental quality measurement.

QUESTION:

SEA GRANT

The contributions of the Sea Grant network in the areas of Marine Biotechnology, EEZ Resource Assessments, Coastal Zone Management Policy, and Fisheries Productivity and Economics are unquestionable. A recent report calculated that Sea Grant efforts contributed nearly $230 million to the economy in one year alone.

In addition, in response to the recent White House sponsored Packard-Bromley report the National Science Foundation is establishing national science and technology centers to foster cooperation between university, industry, and Government research communities. Sea Grant is exactly such a program.

In light of recent concerns about American competitiveness, does it make sense to terminate Sea Grant, an existing program aimed at encouraging marine industrial and economic development through the same type of university, industry, and Government cooperative venture which the NSF has suggested?

ANSWER:

The decision to discontinue Federal support for the National Sea Grant College Program is based on the fact that since its inception in 1966, the Program has accomplished its primary goal of establishing a nationwide network of institutions with strong

programs in marine science, education, and technology transfer. As is the case with the Science and Technology Centers proposed by NSF, Federal support in the early years of the program was appropriate and contributed to the successful development of Sea Grnat College Programs across the country. Since most of the projects supported by these institutions primarily benefit local, state, and private sector interests, it is now time for those primary beneficiaries to assume full responsibility for their funding.

QUESTION:

NOAA'S ROLE IN GLOBAL CHANGE STUDIES

Concern has recently developed about the suite of Global Environmental issues including; the greenhouse warming effect, upper atmosphere ozone layer depletion, sea level rise, acid rain, and radioactive fallout, collectively called Global Change. NSF, NASA, and NOAA are identifying key programmatic areas within their agencies which address the many aspects of this issue. NSF and NASA have both established Global Geosciences programs and are asking for FY 1988 budget increases of $24.6 million and $25.0 million respectively. NSF has identified Global Geosciences initiative as the highest priority issue in its entire geosciences budget activity which was funed at $285 million in FY 1987 and is proposed to receive $330 million in FY 1988. NOAA was to have been the third key player in this interdisciplinary effort, and yet has no proposals in the FY 1988 budget to support this activity.

A. What is NOAA's current role in the Global Geosciences initiative, what should it be in the future, and approximately what level of funding would be necessary to support this role?

B. Did NOAA request funding to the Commerce Department for Global Change studies in FY 1988?

ANSWER:

A. The Global Geoscience Initiative is an NSF program not a NOAA program. This initiative represents the FY 1988 NSF contribution to an evolving national program to understand and predict changes (both natural and manmade) in the global environment. Although other agencies will participate, the principal players in this effort are NSF, NASA and NOAA.

NOAA's unique role and contribution derive from our primary mission and statutory responsibilities to predict environmental changes on a wide range of time and space scales and provide related data, information, and services to the public, industry, the research community, and other agencies. Many of our ongoing programs in oceanic and atmospheric observations; data collection, processing, analysis; long-term monitoring; focused research; predictive modeling; and information management comprise and substantial and unique Federal capability and serve as the fouindation for NOAA's contribution to a national global change program (e.g., RITS, TOGA, GMCC, ocean observations, ocean-atmosphere modeling, National Data Centers).

B. NOAA did not request specific funding from DOC for global

change studies as such, but NOAA's request for activities in support of the National Climate Program (e.g., Climate and Air Quality activities like RITS and TOGA) substantially support a program to understand and predict changes in the global environment.

QUESTION:

FISH LICENSE PROPOSAL

Funding for several of NOAA's fisheries programs is proposed for "later transmittal" pending the enactment of a Marine Fisheries Conservation Program Act. The programs are either terminated or reduced in the current FY 1988 budget proposal. Some of the activities in these programs are mandated by existing legislation such as the Marine Mammal Protection Act and the Pacific Salmon Treaty.

If Congress does not enact this legislation, how does the agency intend to meet its responsibilities for programs such as those mandated by law?

ANSWER:

In order to help reduce the Federal deficit without raising taxes, the reductions for NOAA's fisheries programs proposed in the Administration's FY 1988 budget focus on lower priority, albeit important, research. Difficult choices had to be made in the identification of program reductions throughout NOAA. We expect to meet our highest priority program responsibilities mandated by law within the proposed funding levels. Without the funding proposed for "later transmittal" the FY 1988 budget would provide $7.5 million for protected species research and management programs under the Endangered Species and Marine Mammal Protection Acts and $8 million for Pacific salmon programs.

QUESTION:

One of the justifications for terminating the states' grants for commercial and anadromous fisheries conservation and research is that these activities can be carried out by the states with the funds from the proposed Marine Fisheries Conservation Assurance Program.

A. How will the states maintain the activities in these areas if the legislation is not enacted by Congress?

B. Dr. Calio, what is justifiable about not funding key NOAA programs in the initial FY 1988 budget request, and then proposing to restore that funding based on what I see is essentially a fish tax on unrelated activities?

ANSWER:

A. We believe that the funds from the proposed Marine Fisheries Conservation Assurance Program would be used by the states for many of the activities being conducted under the existing grant-in-aid programs.

B. The Marine Fisheries Conservation Assurance Program is

designed to ensure that the people benefitting from the marine fisheries conservation and regulatory programs assume some of the costs of providing the services. We do not believe that the user fees associated with the program are a tax. The fees are a charge to those receiving a direct benefit not enjoyed by everyone to offset some of the costs of directly related to supporting the conservation and management of marine fisheries resources.

QUESTION:

NURP AND SEA GRANT RELATIONSHIP - NOAA'S RESPONSE TO FY 1987 SENATE REPORT LANGUAGE

In its FY 1987 Bill, the Senate Appropriations Committee directed NOAA to address the question of the relationship between the Offices of Undersea Research and Sea Grant. As you know, presently the Director of the Office of Undersea Research reports to the Director of Office of Sea Grant. The two offices, while collaborating on specific programs, have different functions and responsibilities. The response the committee recently received was, and I quote: "any decision to change the management structure will be reviewed in light of the decision to terminate the NURP program at the end of this year."

Dr. Calio, the NURP program will not be terminated at the end of FY 1987, nor at the end of FY 1988, '89, or after that. Has there been an effort within NOAA to look at the management and programmatic efficiencies with the Office of Undersea Research reporting directly to the Assistant Administrator of Oceanic and Atmospheric Research?

ANSWER:

Yes, we have reviewed the potential for management efficiency in the suggested reorganization and weighed that against the benefits of the current structure. The Office of Sea Grant and Extramural Programs (SE) is one of the three major components of the Office of Oceanic and Atmospheric Research (OAR), each of which has broad planning and coordinating functions across OAR. It has responsibility for managing extramural marine research and facilities largely in universities. This office in turn has three components: NOAA Undersea Research Program (NURP), National Sea Grant College Program (SG), and the National Coastal Research and Development institute. NURP reports officially to the head of SE and not the Director of Sea Grant. At the present time, NOAA has not filled the position of head of SE permanently but has the Director of SG acting in that position.

The Administrator is currently reviewing the efficiency of this arrangement and the possibility of other options, especially in light of the anticipated appointment of a Chief Scientist. We will inform the Committee of the results of this deliberation as soon as possible.

QUESTION:

ANTARCTIC MARINE LIVING RESOURCE PROGRAM

The FY 1988 budget proposes to eliminate the $2 million funding Congress provided for antarctic research in FY 1987. The Antarctic Marine Living Resources Conservation Act of 1984 implements the

Convention for the Conservation of Antarctic Marine Living Resources. Among other things, the Act directs the Secretary of Commerce to prepare and implement a plan for conducting research in the Antarctic. In response to this directive, NOAA has prepared and begun to implement a program development plan in consultation with the National Science Foundation, the Marine Mammal Commission, other Federal agencies, private industry, and scientists in the U.S. and aboard.

A. What is the status of NOAA's program development plan for Antarctic marine living resources?

B. What amount of funding would the agency require to address research in the Antarctic under a comprehensive development plan?

C. What does NOAA consider the "highest priority elements" of this program that the agency intends to continue without specific funding and where within the agency will this money come from?

ANSWER:

A. The first major field effort under the auspices of NOAA's Program Development Plan (PDP) for Antartic Marine Living Resources was undertaken during December, 1986 - February, 1987. U.S. and Polish scientists participated in a joint vessel survey to assess fish and krill stocks and to determine their ecological relationships with whales and seals. U.S. scientists are now preparing their preliminary findings for presentation at the tenth meeting of the Ad Hoc U.S. Scientific Working Group on the Antarctic being convened by NOAA/NMFS in Washington, D.C., on April 15-16. Invited participants will include represenatives from consultative and interested agencies, from environmental organizations and from academia. As required by the Antarctic Marine Living Resources Convention Act of 1984, the PDP is being updated to indicate activities planned for FY 1988 and beyond, with the view of discussing this draft during the Ad Hoc meeting. The updated PDP will subsequently be submitted to Congress and research reports will be submitted to the Commission for Antartic Marine Living Resources in support of U.S. positions at the Commission's sixth annual meeting.

B. The PDP for Antarctic Marine Living Resources is designed as a multi-year plan, which is estimated to require $20 million over five years.

C. The highest priority element of the Antarctic Marine Living Resources Program would be to ensure participation in Convention for the Conservation of Antarctic Marine Living Resources (CCAMLR) Scientific Committee and, to the extent possible, provide scientific support of U.S. positions at CCAMLR, which like our participation in other international efforts is supported by the line office most directly benefitting.

QUESTION:

HYDROTHERMAL PROCESSES/POLYMETALLIC SULFIDE RESEARCH

In defending the deferral of research into polymetallic sulfide mineral deposition processes, it is stated that current NOAA data combined with NSF and USGS data is sufficient for understanding the formation and distribution of these deposits.

Is there consensus of this assertion among the program managers in NOAA, NSF, and USGS?

ANSWER:

NOAA research on venting systems has evolved to a study of the impact of these systems on the chemical environment of the global ocean. This is felt to be the most important issue facing us at this time. We cannot speak for NSF or USGS.

QUESTION:

Many observers of the third United Nations Conference on the Law of the Sea feel that the deep seabead mining issue took on much more significance than it deserved because of the visions of immense wealth that grew out of insufficient information about the composition and distribution of manganese nodules.

Wouldn't it be wise to prevent some similar ignorance-driven conflict by continuing NOAA's research into polymetallic sulfides?

ANSWER:

NOAA's seafloor processes research currently focuses on the impact of seafloor hydrothermal venting systems on global ocean chemistry. The USGS held public hearings on the possibility of commercial leasing off the Pacific Northwest Coast. We assume that it maintains an adequate program of research to support its management responsibilities.

QUESTION:

GEAR ENTANGLEMENT

The justification for the proposed termination of NOAA's Gear Entanglement Program (-$750,000) is that the problem "had been a concern to resource managers and was addressed in FY 1987 studies."

A. With eight Bills introduced in the 100th Congress on the problem of discarded driftnets and other plastics pollution in the ocean, and the fact that large numbers of seabirds, marine mammals, and non-targetted fish are dying annually because of plastics pollution, how can the termination of this program be justified?

B. Am I correct is stating that the fisheries service is currently in the process of developing an entanglement research plan?

ANSWER:

A. The NMFS FY 86 and FY 87 appropriations for the Entanglement Program are either committed or being committed to meet the three recommendations of the Hawaii Workshop on the Fate and Impact of Marine Debris; education, information collection and mitigation. Research on the impacts of debris entanglement or ingestion on species that are either conserved or managed by law is in progress (Northern fur seals, Hawaiian monk seals, sea turtles, and seabirds). A marine debris education program is in progress and is being complimented with technical research on alternate disposal methods and alternate materials utilization.

This program has in many ways achieved what it had set out to accomplish; the identification of problems associated with discarded or lost fishing gear and other marine debris, the education avenues required, and mitigation means necessary to resolve most of these harmful practices.

B. Yes, the NMFS is in the process of developing an entanglement research plan for FY 87. The proposed plan was forwarded to the Marine Mammal Commission in early January, 1987. Their response was received on March 9. We are developing a revised plan based on their response to guide entanglement research for FY 1987.

QUESTION:

NORTH ATLANTIC RIGHT WHALE RESEARCH PROGRAM

The North Atlantic Right Whale Research Program was initiated in FY 1986 and is proposed as a five-year study on the ecology of the world's most endangered whale. The program level for this research is $500,000 annually. Because most of the funds were not obligated in FY 1986 and subsequently carried over to FY 1987, the proposed decrease of $250,000 in FY 1988 basically terminates this study after only one year.

A. Why is this program being terminated when the time-series research may provide essential information on the survival of one of the world's most endangered whales?

B. Does NOAA have plans to develop a recovery plan for the North Atlantic Right Whale as directed in the Endangered Species Act and recommended by the Marine Mammal Commission?

ANSWER:

A. Given the current Federal deficit and budget constraints this research is considered lower priority and not essential for the protection of right whales under the Endangered Species Act and the International Whaling Commission's whaling moratorium.

B. Yes. We are developing a national recovery plan for the endangered right whale. In the very near future we will appoint a recovery team to provide assistance and advice in developing and implementing the plan.

QUESTION:

FISH OIL

NOAA has been involved since FY 1986 with the National Institutes of Health in a cooperative program to determine the health benefits of fish oil. NOAA's role has been developing and producing refined fish oil for use as test materials for NIH's medical research on the subject. As I'm sure you know, the Omega-3 fatty acids in fish oils may be extremely important in the prevention and treatment of thrombosis, cardiovascular disease, and cancer.

What is the status of NOAA's involvement in producing refined fish oil for NIH's use and why has this program been terminated for FY 1988?

ANSWER:

NOAA has been conducting research on the development of fish oil for human consumption since 1985, and a number of accomplishments have been achieved. For example, a coordination mechanism has been established for planning, implementing, and evaluating fish oil activities to provide a consistent supply of fish oil materials. A fish oil advisory committee consisting of members from industry, academia, and NMFS has been established. NOAA has signed a memorandum of understanding with NIH, and a 5-year program plan has been developed. As a result of these and other efforts, available test materials are being distributed to NIH-approved research organizations. Now that standards have been developed for the production of test materials, NOAA anticipates that the private sector can provide NIH with needed test materials.

QUESTION:

FISH INSPECTION PROGRAM

At a time when it is generally accepted that there is a strong need for some type of fish inspection program similar to the Department of Aquaculture, why is NOAA decreasing its involvement in fisheries product quality and safety research?

ANSWER:

The NOAA budget request would continue a core product quality, and safety research program at its Charleston, South Carolina fisheries research laboratory to support high priority seafood product and safety research which the industry can not provide for itself. This would include work on product quality and safety; technology innovation; and product identity labeling. Certain product quality and safety activities which directly support the seafood inspection program will be continued by including these costs in the inspection fees paid by industry for participation in this program. Further, we intend to meet future demand for our inspection services primarily through cooperative inspection agreements with the states and the USDA. These arrangements will provide for training and cross-licensing of state and USDA inspectors on a cost-effective basis.

QUESTION:

HABITAT RESEARCH

Habitat research activities are proposed for a $5.8 million reduction in FY 1988, with 60% of that amount being research in the Northeast on the effects of pollution on fishery resources.

Why is this program being drastically reduced when there is critical information needed on the effects of environmental factors on the fishing industry of the Northeast?

ANSWER:

The habitat research proposed for reduction consists of lower priority activities which are either not essential to the NOAA mission or are in areas which should be funded by other Federal, state, local, or private entities. This action will contribute to the reduction of the Federal deficit. The remaining base funding of $7.6 million will permit NOAA to continue high priority habitat research as part of an integrated ecosytems approach. This will improve program effectiveness by focusing efforts on higher priority research needs. Remaining activities will allow establishment of principles and standards to support impact predictions and permitting recommendations for precedent setting cases which will benefit the fishing industry of the Northeast.

QUESTION:

GREAT LAKES ENVIRONMENTAL RESEARCH LABORATORY

The 1978 U.S.-Canada International Great Lakes Water Quality agreement is open to renegotiation this year.

A. Wouldn't it suggest continued support for this agreement if we maintained funding for the Great Lakes Environmental Research Laboratory rather than subjecting it to the 27% budget cut proposed in the FY 1988 budget?

B. Aside from the U.S.-Canada agreement, could you please comment on how this proposed budget cut makes sense in terms of a policy for addressing heightened conerns over such transboundary pollution issues as airborne toxicants?

ANSWER:

A. The principal impact of the proposed reduction will be to curtail research in the areas of lake hazards and water levels research. The decision to reduce those activities was made to ensure that NOAA can continue to meet the pollution-related requirements of the Agreement.

B. The Great Lakes Environmental Research Laboratory has not, to date, been actively involved in transboundary pollution via airborne toxicants but is cognizant of the problem.

QUESTION:

DEACTIVATION OF NOAA RESEARCH VESSELS

The Administration's budget proposes to lay-up seven research ships

and reduce days-at-sea for seven others based on a study of the feasibility and potential cost savings of using commercial charter vessels instead of NOAA ships. As I understand it, the results of that study will not be out until September of this year.

A. Why is NOAA going ahead with deactivating its ships before the results of the study have been released? Do you have any preliminary information that shows this to be a cost-effective approach and that private vessels are available in different regions of the country?

B. When NOAA charters out for research vessels, where do the contracting costs come from?

C. The budget proposes that a mix of "active and inactive" NOAA ships be used when needed. What is involved in placing a ship back on active duty and how cost-effective is this instead of keeping all ships active?

ANSWER:

The marine services proposal to operate 14 ships, lay-up 7 ships and reduce Days-at-sea on 7 ships is not connected to the use of commercial charter ships instead of NOAA ships. It is the level of days-at-sea needed to operate NOAA's FY 1988 programs. The study may result in further savings. If the use of charter vessels is shown to be more cost-effective than NOAA vessels, a reprogramming would be requested to divert funds from NOAA ships to charter vessels.

A. As explained above, the proposed deactivation of 7 ships in FY 88 is not connected with the study, but is based on the requirements to meet NOAA's FY 1988 programs.

We have used charter vessels in some areas to meet program needs. Further, a June 1986 GAO report indicates that in some areas charters may be much less expensive than NOAA ships. The report recommended a more detailed study be conducted before chartering. We are proceeding with such a study and will complete it by the end of FY 1987.

B. In past budget submissions, funds for charters were to have come from a portion of the funds that would otherwise have been used for NOAA ships. Those budget charter proposals were not accepted by Congress. We have, however, used charters when we needed more ship time than we had available; in those cases the programs using the charters funded them.

C. The process and cost to reactivate an inactive ship is dependent upon the amount of time that the ship has been inactive, the maintenance level while the ship was inactive and the process used when the ship was deactivated. For a long inactive period, a major drydocking and overhaul may be required but a short inactive period may require only reloading of equipment and stores and system checkout and startup. The cost-effectiveness of deactivating versus maintaining a ship in an active status will vary with the expected period of inactivity.

QUESTION:

MARINE MAMMAL PROGRAMS

What are the Marine Mammal Programs that are included in the proposed $1.6 million reduction for FY 1988?

ANSWER:

Selected lower priority marine mammal research programs affect several species; tursiops research at NOAA's fisheries laboratory in Miami, FL, will be reduced by $200,000. At NOAA's fisheries laboratory in Seattle, WA, the following activities will be reduced: bowhead whale research (-$500,000); fur seal research (-$400,000); and National Marine Mammal Laboratory research (-$300,000). Operational support of marine mammal research will also be reduced at NOAA's fisheries laboratory in Woods Hole, MA (-$100,000), and in Washington, D.C. (-$100,000). Of the $1.6 million proposed reduction $1.5 million would be restored as part of the $29 million request that is proposed for later transmittal contingent upon enactment of legislation for marine fishing user fees.

QUESTION:

NURP

The FY 1988 budget states that "high priority services provided from this line item to other NOAA programs will be continued within available funding levels."

What are these "available funding levels", and what activities are considered "high priority"?

ANSWER:

Individual NOAA line organizations which determine the need for an undersea capability to address a specific aspect of their research program will have to cover the costs of acquiring that capability out of funds provided to support that individual research program. A decision on the relative priority of supporting undersea research activities will be made by the individual program managers on a case-by-case basis.

QUESTION:

SALTONSTALL-KENNEDY FUNDS TO PROMOTE AND DEVELOP FISHERIES PRODUCTS

NOAA's budget submission proposes to transfer all of the revenues from the Saltonstall-Kennedy industry assistance grants into NOAA's Operations, research and facilities account to offset general program obligations. The argument is that current NMFS activities adequately support the commercial fishing industry. These same NMFS activities are slated for a 39% budget cut in FY 1988, including; a $38.5 million cut in information collection and analysis, a $14.3 million cut in conservation and management operations and a $17.4 million cut in state and industry assistance programs.

Doesn't this wholesale attack on fisheries programs within NMFS, which is reprehensible enough in its own right, suggest that the argument for terminating the Saltonstall-Kennedy fund industry

assistance grants is at the least inaccurate, if not actually deceptive?

ANSWER:

No, there are several activities that benefit industry. Development projects are conducted by industry-supported regional fisheries development foundations, as well as company specific research and development activities. A more economical use of S-K funds is to offset the costs of NMFS Operations, Research and Facilities programs which provide resource information to industry, and regulate actions to ensure that a continued renewable resource is available for industry, and a management regime with allocations of resources that favor U.S. fishermen. Investments in development activities should be provided by the U.S. fisheries industry.

This proposed mix of efforts will better meet the real needs of industry while preserving the proper allocation of relative Federal and industry roles and responsibilities. Industry will also benefit from reductions to the Federal deficit.

QUESTION:

PROJECTED FUTURE COSTS OF NWS HARDWARE

In the FY 1988 proposed budget, the projected costs for National Weather Service Systems Acquisition are outlined for the next five years. On top of the 229% increase in FY 1987, there is a 48% increase proposed for FY 1988, and a 52% increase proposed for FY 1989. I wholeheartedy support the programs covered by these funds such as NEXRAD and AWIPS/ASOS; they are central to the mission of the National Weather Service.

What I am concerned with is the practice of treating these projected costs as program increases rather than as adjustments to base. As long as they are considered program increases, other programs within NOAA must take cuts in order to keep total expenditures down. I suspect that this is part of the reason that the ocean and coastal programs are taking such significant cuts this year.

In general, what is NOAA's policy for distinguishing adjustments to base from proposed increases?

ANSWER:

The Department's policy for distinguishing adjustments to base from proposed increases is related to the program level being proposed. An adjustment to base is proposed when the level of the program is being maintained but costs that are beyond control of the agency have increased. These are primarily rate increases, such as pay, rent, postage, and benefits. A program increase is requested when the scope of the program is being increased or discretionary costs have risen.

QUESTION:

WEATHER RECONNAISSANCE AGREEMENT WITH USAF

In FY 1988 NOAA transferred $10 million to the Department of Defense for weather reconnaissance operations.

A. Has this agreement been effective in providing NOAA with the necessary information?

B. Does the Air Force FY 1988 budget propose to continue the reconnaissance activities at an adequate level to support NOAA's forecasting responsibilities?

ANSWER:

Total weather reconnaissance funding in the FY 1987 NOAA budget was $10.2M. This was deleted from NOAA's budget in the Appropriations process. The correct amount for USAF reconnaissance ($8.5M) was transferred to the USAF budget. The balance ($1.7M), for the near-shore weather reconnaissance NOAA performs using it own P-3 aircraft, was not funded in either NOAA or USAF. Congress directed NOAA to absorb the FY 1987 shortfall.

The FY 1988 NOAA budget requests that the $1.7M for NOAA near-shore reconnaissance be restored in NOAA, and assumes that the USAF reconnaissance will again be funded in USAF as in 1987.

A. NOAA has not been able to determine if the arrangement has been effective because the hurricane season does not start until May (and runs through October).

B. The USAF indicated at the interagency hurricane conference in January, 1987, that they would provide adequate coverage for NOAA. NOAA is working with USAF to clarify details of this commitment, but expects that USAF will provide annually whatever level of reconnaissance support weather conditions require.

QUESTION:

SOLAR-TERRESTRIAL SERVICES AND RESEARCH

A. How was the assumption reached that $100,000 would be recovered in fees from users of services provided by the space environmental laboratory?

B. What happens to the activities funded by these fees if the amount needed is not reached?

ANSWER:

A. The suggested fees are based on estimates of incremental cost to the Space Environment Laboratory, which is required to provide the services for the use of other federal agencies. Higher fees would put NOAA in the position of making a profit on the services. Lower fees would not compensate NOAA adequately for the expense of providing the services. Estimates of the incremental cost of providing services to other users were used to prepare the suggested fee schedule, including equipment and manpower. We expect $100,000 based on NOAA costs and expected demand for these products and services.

B. The proposed fees will be deposited to the general treasury as a general, not direct program offset and will, therefore, not

impact SEL programs.

QUESTION:

LANDSAT COMMERCIALIZATION

What is the status of the Landsat Commercialization, and will NOAA be requesting a supplemental in FY 1988 for the program?

ANSWER:

Congress appropriated $27.5 million in FY 87 to continue Landsat on the condition that we first obtain Congressional approval of a revised plan for the Landsat program. We submitted our revised plan on December 16, 1986. The Senate disapproved the plan in January 1987. We are currently reassessing commercialization alternatives in the Administration and will be reporting to Congress shortly.

QUESTION:

ADMINISTRATIVE ABSORPTIONS

Dr. Calio, would you please provide, for the record, a list of the proposed and actual administrative absorptions costs since 1982? (For example, A-76, GS 11-15 savings, pay increases, etc.).

ANSWER:

ABSORPTIONS
(Amount in Thousands)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	Total
ATB's approved by DOC but not funded in Pres. Budget	$4,882	$218	$11,108	$13,426	$2,704	$7,190	$39,528
Pay raise and related cost absorbed	1,071	6,080	...	14,259	1,323	9,727	32,460
Adm. position cuts	...	...	2,974	...	...	4,802	7,776
Deficit Reduction Act/Section 2901 cut***	...	...	...	...	4,546	...	4,546
GS 11-15 reductions	...	...	...	500	1,167	3,073	4,740
A-76 reductions	...	...	...	3,127	4,145	7,151	14,423
Actual A-76 savings	...	...	...	...	(2,892)	...	(2,892)

Unfunded increased costs of ASC's	...	...	...	3,398	...	...	3,398
Library cost*	...	...	...	1,802	...	...	1,802
Other absorptions**	5,228	...	...	...	...	...	5,228
Total	11,181	6,298	14,082	36,512	10,993	31,943	111,009

*Programmatic reduction accepted by Congress - Libraries kept open because of their importance.

**FTS/Telecommunications..... $4,000K
Postage cost..... 300K
NOAA Corps entitlements..... 928K

***Restoration requested in FY 1988 President's budget.

QUESTION:

CHIEF SCIENTIST NOMINATION

In the last Congress Senators Hollings, Rudman, Gorton and I introduced legislation to create the position of Chief Scientist within NOAA. The President signed that Bill into law on November 15, 1986. Four months have now passed, and the President has still not submitted a nomination for this position.

What is the status of the nomination process for this position?

ANSWER:

In February of this year, the selected nominee withdrew his name from consideration for the job. NOAA, the Department, and the White House are actively seeking a new candidate and hope to make a selection in the near future.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR HATFIELD

QUESTION:

The conference agreement on fiscal year 1987 appropriations for the National Oceanic and Atmospheric Administration included $350,000 in operating expenses for the Marine Science Center in Newport, Oregon. Have all these funds been made available pursuant to this directive? Was the full amount of $350,000 appropriated in 1986 for the Newport lab made available directly to Newport? If not, why not?

ANSWER:

Funding to support the operating expenses of the Marine Science Center in Newport, OR, has been provided since 1984. In FY 1986, the full amount ($350,000) was not made available to the Center since it was subject to the Gramm-Rudman-Hollings reductions. Accordingly, $335,000 was made available to Newport.

In FY 1987, funds for support of the Center are being made available by NOAA. We intend to conform fully with the appropriation language requirements.

QUESTION:

The conference agreement on fiscal year 1987 appropriations for NOAA included $1,800,000 for sea floor spreading research at the Newport Marine Science Center. Have all these funds been made available pursuant to this directive? Does NOAA intend to conform fully with this directive?

ANSWER

The full $1,800,000 is being made available to the Hydrothermal Processes (VENTS) program manager at Newport in accord with normal allocation procedures.

QUESTION:

The report accompanying the 1986 appropriations bill as reported from the Senate Appropriations Committee directed that $200,000 of the funds provided for the Fisheries-Oceanography Coordinated Research Program (FOCI) would be used at the Newport, Oregon, lab to conduct research on the distribution and survival of juvenile walleye, pollack, and Pacific salmon. What is the status of these funds?

ANSWER:

Funds have been transferred to the National Marine Fisheries Service (NMFS) for use at Newport.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR DOMENICI

QUESTION:

BIENNIAL BUDGET CYCLE

Calls for budget reform are increasingly heard as budget deadlines are too often missed, important budget decisions are delayed, appropriation bills and other direct spending legislation are held up in committee, and omnibus spending bills take the place of timely and orderly consideration of individual bills. One procedural reform that is being considered is the two-year budget cycle where budget and appropriations matters would be considered in the first year, and authorizations and oversight would be undertaken in the second year.

A. Would your department/agency favor a biennial budget process? What benefits would your agency achieve in a two-year appropriation cycle?

B. Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

C. What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?

D. If you oppose the biennial budget concept, please give this subcommittee your reasons why.

Background

On January 29, 1987, Senator Roth, Domenici, and others introduced S. 416, the Federal Budget Reform Act of 1987, that would institute a two-year federal budget cycle. The bill has been jointly referred to the Senate Committees on the Budget and on Governmental Affairs.

ANSWER:

The Administration is studying the subject of multi-year budgeting and whether to propose biennial budgeting for appropriations for accounts other than those in the national defense area.

Biennial budgeting may have substantial advantages for a number of agencies. We have not studied any specific proposals for biennial budgeting for the Department of Commerce, but for most of our accounts - which are administrative in nature - there would not be much applicability. For research, major procurement, and cyclical programs, the advantages may outweigh the disadvantages.

The major disadvantages of multi-year budgeting for most accounts is simply that the further away the budget year is from initial estimates the less reliable the estimates will be and the more vulnerable to uncertainty and shifting conditions. The danger is that much of the time during the "off" year will be spent redoing the estimates and submitting budget amendments and supplementals.

A proposal to spend the first year of a biennial cycle settling program questions and the second year appropriating funds has some merit, but until we see some results from the Administration's studies, we will not be in a position to make specific recommendations.

MARINE MAMMAL COMMISSION

STATEMENT OF ROBERT ELSNER, PH.D., CHAIRMAN, MARINE MAMMAL COMMISSION

ACCOMPANIED BY:
JOHN R. TWISS, JR., EXECUTIVE DIRECTOR
ROBERT J. HOFMAN, PH.D. SCIENTIFIC PROGRAM DIRECTOR
DONALD C. BAUR, GENERAL COUNSEL

BUDGET REQUEST

Senator HOLLINGS. Our next witness this morning is Dr. Robert Elsner, Chairman of the Marine Mammal Commission. The budget request for the Commission for fiscal year 1988 is $906,000. I never knew there was such a thing in government, so economical. Heavens above, less than a million. In that, there is a decrease of $4,000 from fiscal year 1987.

We welcome you, Dr. Elsner, and the other members of the Commission. Your statement will be included in the record in its entirety, and you can deliver it as you wish in full or highlight it, either way.

Dr. ELSNER. Thank you very much.

INTRODUCTION OF ASSOCIATES

Good morning, Mr. Chairman and Members of the committee. I am Chairman of the Marine Mammal Commission. With me today are John R. Twiss, Jr., the Executive Director; and Dr. Robert Hofman, Scientific Program Director; and Donald C. Baur, General Counsel.

We have prepared a longer written statement for the record, but I would like to, with your permission, briefly summarize it.

The substance of my report to you today will be directed to certain topics of Commission policy responsibility under the Marine Mammal Protection Act of 1972. These relate to populations which are threatened or depleted; efforts to understand and to reduce unfavorable interactions among fisheries and marine mammals; and studies related to elimination of adverse effects which threaten the health and stability of the marine environment.

FISCAL YEAR 1987 TO DATE

Last year, we stated before this committee that we would work on: recovery plans for individual marine mammals including whales; protection of marine mammal habitats; marine mammal/fisheries conflicts; improved assessments of marine mammal populations; propagation programs for captive marine mammals; and the coordination of research

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and management programs. I shall touch on some of our efforts to meet those commitments.

ENDANGERED AND THREATENED SPECIES

We have worked with the National Marine Fisheries Service concerning steps to protect the Hawaiian monk seal. Essential to this activity is that the Service reconstitute the Hawaiian Monk Seal Recovery Team, a group responsible for updating the recovery plan.

To help assure continuing progress with the West Indian manatee, we contracted for a complete program review. The draft report identifies many actions that should be taken, and that report has been given to the Fish and Wildlife Service and state agencies for comment before publication. It is now being used by both State and Federal agencies.

We have continued to work with the Fish and Wildlife Service on southern sea otters in California and their proposed regulations on the establishment of a reserve breeding colony on San Nicolas Island. This is a logical first step in a zonal management program that will help assure that the population is not jeopardized by oil spills while minimizing impacts on fisheries.

In the past, we have told you of our efforts to encourage the National Marine Fisheries Service to implement recovery plans for endangered great whales, particularly the Atlantic right whale, the Pacific humpback whale and the Arctic bowhead whale. Accordingly, we have sponsored workshops and reviews, and we have collaborated with agency, academic and private groups to develop such plans.

I wish to assure you that we will press with whatever vigor and knowledge are at our command to prevent the demise of these endangered and threatened species.

MARINE MAMMAL/FISHERIES INTERACTIONS

In 1986, we held a workshop on marine mammal/fisheries interactions in California. Participants were representatives of affected fisheries, the National Marine Fisheries Service, fish and game agencies of several States, environmental groups and the academic community.

We also advised the National Marine Fisheries Service on reducing porpoise mortality incidental to tuna purse seine fisheries and on estimating the size of affected porpoise stocks. We participated in the review of the Japanese application to take Dall's porpoise and other marine mammals incidental to salmon fisheries within the U.S. Fisheries Conservation Zone. We have also encouraged consultations among appropriate people to reduce adverse interactions between killer whales and Alaskan black cod long-line fisheries.

PERSISTENT PLASTICS IN THE OCEAN

Marine habitat degradation and destruction is a major threat to marine mammals and other life in the seas. A part of this problem comes from the dumping or loss of non-degradable fishing gear and persistent plastics in the ocean. The real magnitude of the threat is un-

known, but present evidence suggests that it may portend a major marine ecological problem.

In late 1986, we testified before Congress on actions needed to address the issue and also presented papers at international meetings in New Zealand and France to encourage cooperative international efforts. We have met with agency and industry representatives to cooperatively develop solutions. We have encouraged other Federal agencies to push for responsible international actions. We will work with the National Marine Fisheries Service to hold an international meeting in early 1988 to establish future research and management activities.

OTHER FY 1987 ACTIVITIES

Our 1986 overview of the marine mammal research programs of other agencies is almost finished. Alaska has received special attention, and a review of selected species of marine mammals in Alaska is soon to be published. We have also: held a workshop on radio tagging and tracking of whales; recommended that the Minerals Management Service undertake programs for the detection of effects of offshore oil and gas activities on marine mammals and other organisms; helped to focus the International Whaling Commission's comprehensive assessment of whale stocks; worked on assessing the status of harbor porpoises affected by California gill net fisheries; and helped identify needed research on the decline of Pribilof Island fur seals and of some Steller sea lion populations in Alaska.

Our annual report fully describes this and other work. I hope that this brief summary has given you assurance that the commitments which we have made are being honored.

OBJECTIVES FOR FISCAL YEAR 1988

We have statutory responsibilities to: make recommendations on needed actions to protect and conserve marine mammals and their habitats; coordinate domestic and international studies to increase related knowledge; publish the results of our studies; make recommendations on requests for waivers of the moratorium on taking and return of management authority to states; recommend United States positions for international negotiations affecting marine mammals; participate in those negotiations; and reviewed applications for permits to take marine mammals.

We shall continue to meet those responsibilities. In addition, we shall work on: domestic and international efforts to address marine debris problems; marine mammal/fisheries interactions; recovery plans for threatened and endangered marine mammals; cooperative international programs to protect marine mammals and habitats; better methods for monitoring marine mammal populations; and planning and coordination of research and management activities.

ARCTIC RESEARCH PROGRAMS

Because we are severely limited logistically in arctic research, we shall join with other agencies to develop a strong national strategy on polar research ships so that the numerous regional marine mammals may be properly studied and other equally important work done. We shall use available funds for contract studies, program reviews and planning meetings. All will be focused directly on resolving problems relating to marine mammal protection and conservation and the resolution of conflicts. As in the past, we shall work closely with interested and affected States, Federal agencies, international organizations, industries and public interest groups.

FISCAL YEAR 1988 REQUEST

The Marine Mammal Commission's fiscal year 1988 budget request of $906,000 emphasizes our overview and policy-making roles. At the same time, it provides for certain priority research projects in support of these roles.

Thank you.

With your permission, Senator Hollings, because the topic of the polar research ship and its needs is a new one which we haven't presented formally, I have prepared a few notes which concern this topic. It will take 2 or 3 minutes to read them.

Senator HOLLINGS. Very good. Go right ahead. I am anxious about this subject. I know you are the foremost authority, and I want to know what the Commission perceives our national needs to be.

Dr. ELSNER. Thank you.

The rationale for expanded arctic marine research rests upon a need to better understand and thus to control the course of increasingly important events in that region. Marine mammals are but one among many arctic resources, both living and non-renewable, having well-recognized major importance for man. Much of the climate of the Northern Hemisphere is generated in the Arctic Ocean basin. We still know very little about these matters, and the impoverished state of knowledge of the arctic oceans was a major impetus behind the passage of the Arctic Research and Policy Act of 1984.

The recent assignment of highest research priority by the Arctic Research Commission to the arctic oceans is further testimony to the importance of this issue. However, we do know enough to recognize that the dominant feature which governs the ecosystem and the climate of our northern marine frontier is the seasonal advance and retreat of sea ice. There is ice movement approximately 1,000 miles, north to south, off the west coast of Alaska.

Present evidence suggests that the biological action of the marine mammals, fisheries and birds are intimately related to the happenings in and near the southern margin of this ice movement. It indicates that life in those seas is largely determined by the presence of sea ice.

Some species of marine mammals for which we are responsible, including populations of vital interest to Alaskan natives are permanently associated with sea ice. If we are to understand what happens there and

why it happens, if we are to successfully conserve and manage those enormous and valuable fisheries and important marine mammal populations, we must be able to provide our scientists with the capability of operating there.

The needs for new knowledge have been increasingly demonstrated for decades, and the tools for doing the job depend primarily upon a dedicated ice-breaking research ship.

I don't wish to leave you with the impression that we have sat on our hands while we are waiting for this research facility. Every available means has been employed to scratch at the surface of this problem. The U.S. Coast Guard ships have sometimes provided our only access to the area. But those ships are responsible for other missions. Science is often secondary, and they are very expensive to operate, thus eliminating many worthy projects.

A little ship of very modest ice capability, the *Alpha Helix*, at my institution, the University of Alaska, has more than once been pushed to the point of sustaining hull damage in trying to reach the places where we need to be. Nearly every year for the past 12 years, American marine mammal scientists and other biologists have worked aboard Soviet research ships in the Bering and Chukchi Seas. Again and again, our people have found that mechanism their only way of working there, sometimes within sight of the coast of Alaska.

That nation, our neighbor across the Bering Strait, has fleets of ice-worthy research ships capable of working in sea ice. I will hasten to add that it is appropriate that we and Soviet marine mammal scientists should cooperate in these seas, because many of the marine mammals and living resources ignore the international boundary and are harvested and managed by both sides.

Prudent and realistic management and conservation requires us to exchange information and ideas with our Soviet counterparts. Even so, we can never produce our best efforts, nor can we provide more than brief, inadequate and superficial treatment for problems and concerns that deserve more of American scientists, while we operate on foreign ships under the control of foreign interests.

Wise and realistic husbandry of our essential arctic resources demands this from us. There are some alternatives, and if you wish, I should be happy to explore some of them with you. Thank you.

[The statement of Robert Elsner, Ph.D., follows:]

PREPARED STATEMENT OF ROBERT ELSNER, PH.D.

CHAIRMAN

MARINE MAMMAL COMMISSION

Good morning, Mr. Chairman and Members of the Committee. My name is Robert Elsner. I am Chairman of the Marine Mammal Commission. With me today are: John R. Twiss, Jr., Executive Director; Robert J. Hofman, Scientific Program Director; and Donald C. Baur, General Counsel. David W. Laist, Senior Policy and Program Analyst, is in Seattle.

FY 1987 to Date

When we appeared before you last year, we said that we would focus our FY 1987 efforts on: assessing and preventing or reducing the adverse effects of marine mammal/fisheries interactions on both marine mammal populations and the involved fisheries; effectively implementing recovery plans for the Hawaiian monk seal, the southern sea otter, and the West Indian manatee; facilitating the development of recovery plans for right whales, humpback whales, and other endangered whales in U.S. waters; developing and implementing a strategy to identify and protect important marine mammal habitats worldwide; facilitating successful propagation of bottlenose dolphins and other marine mammals in captivity; facilitating the development of more economical methods for assessing and monitoring the status of marine mammal populations and their habitats; and improving planning and coordination of marine mammal research and management programs being conducted or supported by Federal agencies, State agencies, and other organizations.

To meet these FY 1987 objectives, we have already done a number of things.

With regard to marine mammal/fisheries interactions, we convened a workshop in 1986 to determine how best to mitigate the adverse effects of interactions among fisheries and marine mammals in California. We organized and carried out the workshop in close cooperation with representatives of the National Marine Fisheries Service, the California Department of Fish and Game, the Oregon Department of Fish and Game, the Washington Department of Game, the affected fisheries, interested environmental groups, and the academic community.

In addition, we have advised the National Marine Fisheries Service on appropriate steps to better assess the status of affected porpoise stocks and reduce the number of porpoise killed incidentally in the U.S. and foreign tuna purse seine fleets. We have also participated in formal hearings to consider a permit application by the Federation of Japan Salmon Fisheries Cooperative Association to incidentally take Dall's porpoise and other marine mammals during fishing operations within the EEZ. We have also encouraged consultations between State and Federal regulatory agencies, environmental groups, and affected fishermen to better assess and determine possible means for preventing or reducing interactions between killer whales and the black cod long-line fisheries in Prince William Sound, Alaska and the Bering Sea.

Our efforts to facilitate implementation of recovery plans for the Hawaiian monk seal, the California sea otter, and the West Indian manatee are summarized in our Annual Report. On 23 December 1986, we wrote the National Marine Fisheries Service recommending steps that it should take to better protect and encourage recovery of the Hawaiian monk seal. We emphasized

reconstituting the Hawaiian Monk Seal Recovery Team. The Team is essential for up-dating the Recovery Plan, and prompt action is needed to re-establish it. We also consulted with the Service and other agencies about existing and potential problems related to abandoning the Fish and Wildlife Service field station on Tern Island and disturbance of seals on Kure Atoll.

With regard to implementation of the Southern Sea Otter Recovery Plan, we reviewed and commented to the Fish and Wildlife Service on 17 November 1986 on the Draft Environmental Impact Statement. We also commented on the proposed regulations governing the establishment of a reserve breeding colony of California sea otters at San Nicolas Island while preventing the expansion of the existing population south of Point Concepcion. This translocation is the first step in developing a zonal management program, something which we first recommended in 1980. Such an approach will help assure that the remnant sea otter population in California is not jeopardized by oil spills from tanker accidents or offshore oil and gas development while minimizing impacts on commercial and recreational fisheries. At present, the Commission is working with the Fish and Wildlife Service to help identify and overcome problems that may prevent initiation of the translocation in the fall of 1987 as proposed.

The West Indian Manatee Recovery Plan was completed and adopted by the Fish and Wildlife Service in 1980. A broad range of Federal and State agencies, industries, and public interest groups have been involved in implementing the plan. To help assure continuing progress, the Commission contracted for a study in 1986 to review and evaluate past and ongoing efforts. The draft report, which identifies a wide range of actions that should be taken to better implement the Recovery Plan, has been given to the Fish and Wildlife Service and other agencies for comment before it is published in final form. Even now, it is providing

the basis for discussion and follow-up by both State and Federal agencies.

We have made commitments to this Committee in the past that we encourage the National Marine Fisheries Service to prepare, adopt, and implement recovery plans for such endangered great whales as the right, humpback, and bowhead whales. To honor our commitments to you, we have, among other things, sponsored two workshops to develop a recovery plan for the Northwest Atlantic right whale population. In late 1985, we recommended that the National Marine Fisheries Service adopt the workshop report as a preliminary recovery plan, and we understand that the Service is now doing this. Research in this area has been conducted by the Right Whale Research Consortium which consists of the University of Rhode Island, the Woods Hole Oceanographic Institution, the New England Aquarium, and the Provincetown Center for Coastal Studies.

Another important Commission effort on great whales was our review of information related to the conservation and protection of humpback whales in Hawaii. In addition, we supported a workshop to identify critical research gaps on the eastern Pacific gray whale population. That workshop report and the report of the humpback study are in final draft form now. They will be provided to the National Marine Fisheries Service within the next several weeks as aids in developing recovery plans.

A major threat to both endangered and non-endangered marine mammals is habitat degradation and destruction. The Commission has played and is playing a primary role in focusing attention both here and abroad on the problem of at-sea dumping of non-degradable fishing gear and persistent plastics. In late 1986, the Commission testified before Congress on actions needed to address this problem. Commission representatives have also recently presented papers in New Zealand and Paris to encourage cooperative international efforts. They have also met with other

agency and industry representatives to discuss cooperative approaches to the problem. This year, we have recommended to the National Marine Fisheries Service that it encourage responsible international action through participation in meetings such as those of the Marine Environment Protection Committee and the Intergovernmental Oceanographic Commission. We also recommended that it hold an international workshop in early 1988 to review research findings and actions taken since the 1984 Workshop on the Fate and Impact of Marine Debris. In addition, we drafted the paper which became the basis for a U.S. initiative at last month's Twenty-fourth Session of the Marine Environment Protection Committee. This was done to further encourage international efforts to control the at-sea disposal of plastics and other harmful garbage.

The Marine Mammal Protection Act requires us to review and make recommendations on the marine mammal research programs being conducted or supported by other Federal agencies. We are now completing the report on calendar year 1986. With respect to more specific programs, we are finishing a general review of nine species of marine mammals that occur in Alaskan coastal waters. In addition, thus far in FY 1987, we have: (1) held a workshop on steps that might be taken to develop safe and effective systems for radio tagging and tracking endangered large cetaceans; (2) recommended that the Minerals Management Service develop and implement monitoring programs to detect possible unforeseen effects of offshore oil and gas development on marine mammals and other components of marine ecosystems; and (3) participated in a variety of meetings to: (a) identify actions needed to direct and expedite the International Whaling Commission's comprehensive assessment of exploited whale stocks; (b) assess the status of the harbor porpoise population(s) affected by coastal gillnet fisheries in California; and (c) identify research necessary to determine the cause or causes of the apparent decline of some

Steller sea lion populations in Alaska. At this very moment, Mr. Laist, our Senior Policy and Program Analyst and members of the Committee of Scientific Advisors are in Seattle reviewing the Service's North Pacific Fur Seal Research Program.

These and other efforts are described more fully in our Annual Report.

Objectives for FY 1988

In Fiscal Year 1988, we shall continue to meet our statutory responsibilities by:

- recommending to the Secretaries of Commerce, Interior, and State needed actions to protect and conserve marine mammals and their habitat;

- helping coordinate academic, State, Federal, and international research and study efforts to increase knowledge and prevent wasteful, duplicative research;

- managing and publishing the results of a research and studies program in which specific problems bearing upon marine mammal protection and conservation are addressed;

- recommending to the Secretaries of Commerce and Interior actions on the issuance of permits to take marine mammals for public display and scientific research;

- making recommendations to the Secretaries of Commerce and Interior on requests for waivers of the moratorium

on taking and return of management authority to states; and

- making recommendations on United States' positions relative to international negotiations affecting marine mammals and participating in those negotiations.

While meeting our statutory responsibilities in Fiscal Year 1988, we shall focus on: identifying and facilitating domestic and international efforts necessary to effectively address problems being caused by lost and discarded fishing gear and other persistent marine debris; reducing the adverse effects of marine mammal/fisheries interactions on both marine mammal populations and the involved fisheries; effectively implementing recovery plans for the Hawaiian monk seal, the southern sea otter, and the West Indian manatee; facilitating development, adoption, and implementation of recovery plans for right whales, humpback whales, and other endangered large whales in U.S. waters; developing and implementing cooperative international programs to better protect marine mammals and their habitats worldwide; facilitating the development of better methods for assessing and monitoring the status of marine mammal populations and habitats; and improving planning and coordination of marine mammal research and management activities being conducted or supported by Federal agencies, State agencies, and other organizations.

Available money will be used for contract studies, program reviews, planning meetings, and workshops necessary to define and determine how best to resolve uncertainties and issues affecting the conservation and protection of marine mammals. As in the past, we shall work closely with interested and affected States, Federal agencies, international organizations, industries, and public interest groups.

Conclusion

Over the years, the Commission has played a lead role in: developing and implementing recovery plans for endangered and threatened species and populations of marine mammals; determining how best to avoid, reduce, or mitigate the impacts of marine mammal/fisheries interactions on both the affected marine mammal populations and the affected fisheries; facilitating the negotiation and implementation of ecologically sound international agreements for the protection of marine mammals and the ecosystems of which they are a part; encouraging Federal and State agencies, industries, and environmental groups to work cooperatively to meet the intents and provisions of the Marine Mammal Protection Act; objectively exercising its overview responsibilities to assist agencies in identifying and addressing critical conservation issues; assuring that research needs are defined clearly and that research programs are planned and coordinated so as to avoid duplication and obtain needed information as quickly and as economically as possible; insuring that agencies appropriately enforce the provisions of the Marine Mammal Protection Act; and providing a continuing review of research and other activities conducted pursuant to the Act.

Fiscal Year 1988 Request

The Marine Mammal Commission's Fiscal Year 1988 budget request of $906,000 emphasizes the Commission's oversight and policy-making role while at the same time providing for certain priority research projects in support of these roles.

STUDIES IN BOTH POLAR REGIONS

Senator HOLLINGS. Why the big study down in the Antarctic, at McMurdo Station and everything else, and none, relatively speaking, in the Arctic itself?

Dr. ELSNER. You are correct. There is much to be gained from studies performed in both polar regions, and I think that much is being missed in the north, and further that much is being missed by our failure to mount joint and comparative studies in the north and the south.

Studies in the Antarctic have had the advantage of a Treaty responsibility there, and the advantage of long-term planning which has been supervised by the National Science Foundation.

A similar possibility for long-term planning in the north may come about now through the establishment of the Arctic Research Commission.

Senator HOLLINGS. Is the funding request for the National Marine Fisheries Service adequate to meet your Commission's recommendations?

Dr. ELSNER. To respond to that, Senator, I think I would have to say that we don't know at this time. We are not aware of the Service's final budget request. We would wish to meet with the Director of the Service soon to discuss this matter in greater detail.

Senator HOLLINGS. Very good.

PLASTIC NETTING IN NORTH PACIFIC

Senator Stevens earlier raised a question of the nondegradable fishing gear that is used. You referred also to miles and miles of that netting in the sea. Is there any recommendation that you have with respect to removing this hazard?

Dr. ELSNER. We have been extremely interested in attacking this problem for a matter of some years. We have appeared before the Congress on several occasions. We have recommended several steps that should be taken to reduce the discarding of plastics, to provide the means to clean up certain special problem parts of the seas, and to encourage the development of worldwide treaties concerning this matter.

During 1988, we would plan to work with the National Marine Fisheries Service to bring about a meeting to actually review the activities since the beginning of 1984, when we cosponsored a workshop, and further, to make plans for further work.

Senator HOLLINGS. You have only two Commissioners now. Will you get an additional commissioner soon, do you think, or do you have any information you can give the committee?

Dr. ELSNER. Again, Senator, I am not sure that I can. We know very little about the activities going on in the Presidential personnel structure. So I cannot provide further information on that point.

SUBMITTED QUESTIONS

Senator HOLLINGS. All right, sir. We have some questions by the other members of the committee and some of my own that we will submit for the record. We appreciate your appearance here this morning.

Senator Rudman called, and he has some additional questions that he would like to ask. He had to go to the Iran meeting, that other committee. They are determining personnel problems over there.

[Laughter.]

Senator HOLLINGS. That might help you get another Commissioner.

[Laughter.]

Senator HOLLINGS. Thank you very much, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Commission for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

Question. With respect to the recommendations which the Commission makes, are these being responded to within the 120-day statutory requirement? Are they being followed?

Answer. By and large, Commission recommendations are being followed by the affected agencies. In some instances, there have been unacceptable delays and it has been necessary to send follow-up letters of recommendation.

Question. We note that there are only two, instead of three, Commissioners at present. Why is that? What is being done about a third Commissioner?

Answer. The vacancy occurred when the former chairman left to become Director of the National Marine Fisheries Service. We have been told that the necessary steps for clearance of a replacement are now being taken.

Question. Is the statutory requirement that Commissioners be knowledgeable in marine ecology and resource management being followed?

Answer. We have been assured that this requirement is being adhered to meticulously.

Question. Is the funding request for the National Marine Fisheries Service adequate to meet the Commission's recommendations?

Answer. From our perspective, we can see many things which we feel should be done. However, we also recognize the need for budgetary restraint at this time and are prepared to work with the Service to ensure that the wisest use possible is made of available funding.

Questions Submitted by Senator Inouye

Question. As you know, the Hawaiian monk seal, found only in a limited area around the northwestern Hawaiian Islands, is in serious danger of extinction. In the past, the Hawaiian Monk Seal Recovery Team played a major role in protecting the Hawaiian monk seal. However, the Recovery Team has not met since 1984.

The Marine Mammal Commission's 1986 Annual Report identified the reactivation of the Hawaiian Monk Seal Recovery Team as a critical factor in encouraging the recovery of the monk seal.

1) Has the Hawaiian monk seal recovery team been reactivated? and

2) If not, what specific efforts have you made toward the reactivation of the Hawaiian Monk Seal Recovery Team?

Answer. On March 16th, William E. Evans, Director of the National Marine Fisheries Service, formally invited a number of qualified persons to serve on a reconstituted Hawaiian Monk Seal Recovery Team. In our efforts to see this done, we had, among other things, provided the National Marine Fisheries Service a list of people whom we considered appropriate for membership on the Team. Many of those individuals have been invited to participate and we are now anxiously awaiting word on when the Team will meet. The Recovery Team played a critical role in the early 1980's and we believe that the prognosis for this species would be far more grave than is now the case had it not been for the Team's activities at that time. The Commission will continue to work with the Service to help facilitate the important work of the Recovery Team.

Questions Submitted by Senator Rudman

Question. A number of my constituents in New Hampshire have written me about the impact of abandoned plastic and nylon fishing gear and nets on marine mammals. Over the past few years, I recommended to the Subcommittee that we provide $750,000 per year to NOAA to research this problem, and funds were included in each of the past three years. We also directed NOAA to work with the Marine Mammal Commission in developing a research program. Has this occurred? What are some of the results of this research?

Answer. The National Marine Fisheries Service has been careful to consult with the Commission at each phase of program development and it has submitted all program plans to the Commission for approval. It is our belief that they have complied with your directives on consultation and approval. With respect to the results of the research, substantial progress has been made in: identifying the types, amount, distribution, and source of persistent plastic debris in the marine environment; defining the nature and scope of the effects of marine debris on living marine resources, aesthetic quality, and navigation; educating commercial fishermen, merchant seamen, ship operators, recreational boaters, and members of the public as to the nature of the problem and the need to avoid discarding plastic waste and other persistent garbage into the ocean; and promoting international cooperation on efforts to study and resolve this serious marine pollution problem. A review of activities supported in fiscal years 1985 and 1986 is attached.

Question. The appropriated level for research by the Marine Mammal Commission has declined from $213,000 in 1986 to $131,000 in 1987 with $78,000 proposed in 1988. What impact will such a budget have on your research activities in 1988?

Answer. We continue to believe that the original Congressional intent that the Commission mount a strong research effort has proven extremely economical and is the correct approach. It is true that there has been a decline in the amount available for research, and this will limit our ability to support specific projects as we have in the past. However, we recognize the need for fiscal restraint in this time of heavy national indebtedness, we note that our overall funding is remaining constant, and we shall make a special effort to work with other agencies to establish and meet research goals that are consistent with the purposes, policies, and objectives of the Marine Mammal Protection Act. Perhaps most important, we shall continue to use our limited resources as seed money for projects worthy of additional support from others to encourage participation in supporting critical work.

Examples may be useful. At one point, we approached the National Oceanic and Atmospheric Administration with the request that they transfer $20,000 to us for research on persistent plastics in the marine environment. They did so and this transfer allowed us to support essential efforts to assess the problem in a number of geographic areas outside of U.S. jurisdiction that had received little attention prior to our study. Another example, occurred quite recently when the Marine Mammal Commission organized, convened, and chaired a workshop on whale tagging and marking using $25,000 from the Minerals Management Service. The workshop results will be used by the Minerals Management Service and the National Marine Fisheries Service, in consultation with the Commission, to plan multimillion dollar programs to assess the effects of offshore oil and gas development and other activities on endangered cetaceans.

Similarly, with respect to the entanglement program, we provided the seed money and prepared the terms of reference for the 1984 Workshop on the Fate and Impact of Marine Debris. The Workshop findings were then used to develop a basic program plan which the National Marine Fisheries Service subsequently adopted and supported. In this way, we have been able to get essential work done at little or no expense to our own research budget. Thus, even though our research budget is reduced, our ability to develop well-conceived programs is recognized and this allows us to constructively influence the ways in which others spend money.

Question. NOAA is proposing a reduction of $1.3 million for protected species research and a reduction of $1.6 million for marine mammal research. This will probably result in the closure of the Marine Mammal Lab in Seattle. Does the Commission support this proposal?

Answer. The National Marine Mammal Laboratory was originally envisioned as a center of excellence for marine mammal science. It has yet to fully meet this expectation largely because it is a division of the Northwest and Alaska Fisheries Center. The National Marine Mammal Laboratory would be greatly strengthened, be far more effective, and be a more articulate voice for scientifically sound marine mammal policies and programs if it were made independent of the Northwest and Alaska Fisheries Center and were to report directly to the Director of the Service just as the Regions and Centers do. However, even if the same organizational structure remains, the Commission still believes it is important to keep the National Marine Mammal Laboratory as a viable entity.

Questions Submitted by Senator Stevens

Question. How should marine mammal research in Alaska's waters be improved?

Answer. The primary elements of this important question concern funding and logistics. With respect to funding, an important part of marine mammal work in Alaska has been that done by the Marine Mammals Division of the Alaska Department of Fish and Game. Like all State offices, this group is suffering substantial across-the-board reductions this year. As a result, it is running at the most marginal of levels. It is the Commission's belief that an increase of $200,000 in the Marine Mammal Division's budget would be adequate to keep the program viable and able to address some of the broad range of marine mammal issues. If such an increase cannot be made, the effect upon the State's program as a whole will be profoundly debilitating.

The second aspect of improving marine mammal research in Alaska relates to logistics. Research is impaired because an ice-breaking research vessel capable of conducting marine mammal and other research in the Arctic is not available. Although the Soviets have taken U.S. marine mammal scientists aboard many cruises in the Bering and Chukchi Seas, this is not always adequate to meet all of our research needs. The Arctic Research Commission and the National Science Foundation are both addressing the question of marine polar research in detail.

Question. What is the status of the Commission's Species Report on Alaska's marine mammals?

Answer. The Species Report is to be published in May 1987.

Question. Do you see a need for an Arctic research vessel for marine mammal research?

Answer. Many marine mammals, including species important to Alaska Natives for subsistence purposes, spend at least part of their lives in the polar regions of the world; some species are exclusively polar. It is in these parts of the world that our capability for research essential to conserve and manage these animals is weakest. The justification for expanded Arctic marine mammal research rests upon a need to better understand, and control, the effects of new and expanding human activities in that region. Marine mammals are but one among many Arctic resources, both living and non-living, of well-recognized importance. Good conservation and management decisions depend upon an adequate base of information relating to such things as marine mammal/fisheries interactions and environmental stability.

We still know very little about the Arctic marine ecosystem. This impoverished state of knowledge was part of the impetus for passage of the Arctic Research and Policy Act of 1984. The recent assignment of highest research priority by the Arctic Research Commission to the Arctic oceans is further testimony to the importance of this issue. Limited as our knowledge is, we do know enough to recognize that the dominant feature which governs the ecosystem and the associated climate is the seasonal advance and retreat of sea ice, an annual cycle that produces an extension of sea ice amounting to roughly 1000 miles, north to south, off the west coast of Alaska.

Available information suggests that the biological activities of marine mammals, fish, and birds are intimately related to events which take place in the southern regions of this ice movement. It indicates that the health and stability of life in those seas is determined in large part by the physical matrix provided by sea ice. If we are to understand what happens there and why it happens and, if we are to successfully conserve and manage those important marine mammal species and the enormously valuable fisheries which interact with them, we must provide our scientists a means of working there. Similar concerns for reacting responsibly to potential impacts of exploration for petroleum and other minerals also demand our attention.

A little ship of modest ice capability, the Alpha Helix at the University of Alaska, has more than once been pushed to the point of sustaining hull damage while trying to reach places where research needed to be done. Almost every year for the past twelve years American marine mammal scientists have worked aboard Soviet research ships in the Bering and Chukchi Seas, and while these collaborative activities have been helpful, they barely scratch the surface. In fact, the combination of Coast Guard icebreakers, the Alpha Helix from the University of Alaska, and foreign ships have given us the opportunity for a brief and superficial treatment of problems and concerns that deserve better attention. Wise and realistic husbandry of our Arctic resources demands more of us.

Questions Submitted by Senator Weicker

Question. As long ago as 1984, the Commission recommended to the National Marine Fisheries Service that it prepare and implement a recovery plan for the endangered North Atlantic right whale. In its 1986 Annual Report, the Commission states that a recovery plan for the right whale is still of utmost importance to the animals' survival, and encourages NOAA to seek funding to continue the right whale research program begun in 1986. Have you received any further correspondence from the National Marine Fisheries Service on its intentions to continue research on the world's most endangered whale?

Answer. The National Marine Fisheries Service advised the Commission earlier this year that it had entered into an agreement with a Consortium of East Coast Organizations to carry out right whale research. We have not been advised of the Service's plans to continue that research beyond FY 87.

As we understand it, approximately $385,000 was provided to the Consortium in FY 1986 and an additional $250,000 is available for FY 1987. Since the FY 1986 funds were not made available in time to begin important survey and other work in the spring and summer of 1986, some critical parts of the program will not be started until this spring and summer. Until that work is done and the results analyzed, it is difficult to say what level of continuing research is necessary.

In December 1985, the Marine Mammal Commission sent the National Marine Fisheries Service the Report from two workshops held earlier in the year. At that time and again in December 1986, we recommended that the report be used as a preliminary right whale recovery plan pending the development and adoption of a formal recovery plan as required by the Endangered Species Act. We are pleased to note that the Director of the National Marine Fisheries Service has just announced his intention to use the Commission's report as a preliminary plan.

Question. As you know, the U.S. is currently involved in Antarctic marine living resources research through a variety of agencies, including NOAA and the National Science Foundation. Briefly, what does the Commission see as high priority issues in the area, and which agencies should be involved in research on those issues?

Answer. From the Commission's perspective, the highest priority issues in the Antarctic are: (1) the possibility that the developing fishery for Antarctic krill could prevent or interfere with recovery of endangered whale populations or otherwise affect the structure or dynamics of the Antarctic marine ecosystem; (2) the possibility that the experimental sealing conducted this year by the Soviets could lead to a commercial sealing

industry; (3) the possibility that mineral resource activities, particularly offshore oil and gas exploration and development, will proceed faster than the acquisition of the biological and other environmental data needed to determine and avoid possible adverse impacts; and (4) the possibility that uncontrolled levels of take of certain species of finfish could adversely affect the structure and dynamics of the ecosystem.

The Antarctic Marine Living Resources Conservation Act of 1984 directs, among other things, that the National Science Foundation continue to support basic research on the Antarctic marine ecosystem and that the Department of Commerce (NOAA/NMFS) develop and implement a directed research program in support of the Convention on the Conservation of Antarctic Marine Living Resources. The Marine Mammal Commission believes that both agencies should be involved in Antarctic marine ecosystem research which should include research necessary to assess and monitor the effects of any mineral resource related activities and fisheries development.

To the best of our knowledge, the National Science Foundation has yet to do a review to determine the most critical gaps in our basic knowledge of the structure and dynamics of the Antarctic marine ecosystem and thereby define the types of marine ecosystem research that it most usefully could support. Although the National Marine Fisheries Service has prepared a program development plan identifying the types of directed research necessary to meet the objectives of the Convention on the Conservation of Antarctic Marine Living Resources, it has yet to develop an implementation plan showing what it intends to do over the next 3-5 years.

Question. I can see that the Commission still considers gear entanglement a massive problem to marine life. Please comment on the role NOAA should play in helping to understand and mitigate the disastrous effects this debris has in ocean and coastal areas.

Answer. Since this Committee has insisted that the National Marine Fisheries Service, in spending its appropriated monies in this area, do so only after consultation and with the approval of the Marine Mammal Commission, we have had ample opportunity to closely observe this program. The process which you set forth has worked well and led to a comprehensive program that makes both long- and short-term sense. The role that NOAA plays in this is that of lead U.S. agency, a role which we believe to be appropriate. We encourage its continuation. The scope and content of the program have been adequate as indicated in the appended review of fiscal year 1985 and 1986 activities. We believe that a strong NOAA role in future years is necessary if we are to successfully address this problem.

Question. Does the Commission feel that funding levels for marine mammal programs within NOAA's National Marine Fisheries Service are adequate to address current and potentially critical issues of marine mammal protection and management?

If not, would you please list, for the record, what the Commission's recommendations are for funding levels and program priorities within the marine mammal or related programs within the Fisheries Service?

Answer. Recognizing that we examine the National Marine Fisheries Service's budget within the context of marine mammals rather than in light of all of the Service's responsibilities, it is not surprising that we would recommend higher budget levels for marine mammal programs almost whatever amount were requested in the President's budget. However, we recognize the need for fiscal restraint. As we do with all agencies, we shall provide the National Oceanic and Atmospheric Administration and the National Marine Fisheries Service with our best advice and work with them in establishing funding priorities that make the best use of whatever funds are available.

ATTACHMENT TO QUESTIONS

Fiscal Year 1985 Activities to Address Problems Associated with Debris in the Marine Environment

A. EDUCATION AND PUBLIC AWARENESS

1. Education Program Development and Implementation $144K

A program was developed and initiated to educate marine user groups as to problems and needed solutions to the problem of marine debris. A review of available information was completed and a series of seminars with U.S. and foreign fishing organizations was initiated with particular emphasis on the North Pacific.

2. West Coast/New England Beach Clean-up - $6.1K

Efforts were made to coordinate a National Volunteer Beach Clean-up Day. Held on 21 September 1986, beach clean-up efforts were undertaken in 11 coastal states. A report on the effort has been prepared.

B. SCIENTIFIC AND TECHNICAL INFORMATION

1. Northern Fur Seal Entanglement Research - $106K

Research was undertaken to determine the number of seals observed entangled on the Pribilof Islands. The relationship between observed entanglement on the Islands and the total entanglement rate (e.g., including entangled seals unable to return to shore) requires further research. Behavior studies of fur seal pups in the presence of net fragments indicate that they are likely to seek out and become entangled in marine debris. Reports of results are available.

2. Northern Sea Lion Entanglement Research - $85K

A study was undertaken to assess entanglement rates at sea lion rookeries in the Aleutian Islands. Low rates were reported; however, pups, perhaps the age class most likely to be affected, had not yet been to sea.

3. Establishment of a Reference Collection to Identify the Source of Marine Debris - $48K

A marine debris reference collection has been set up to compare recovered material with material of known origin to help identify the source of recovered debris.

4. Beach Debris Surveys in Alaska - $35K

A survey of marine debris accumulation on beaches in Alaska was conducted and compared to results of previous studies. Data on types and amounts of debris were collected.

5. Recovery and Loss of Net Debris by U.S. and Foreign Fishermen off Alaska - $23K

Fisheries observers recorded data on amounts of net picked up and lost by commercial trawl fishermen off Alaska between 1982 and 1984. Several thousand pieces of lost nets were recovered and 50-70 net cod ends/year were estimated to be lost during the study period.

6. Survey of High Seas Squid Gillnet Fishery - $100K

Foreign high seas squid gillnet boats were monitored to determine the amounts and rates of net loss in 1986. Surveys of net debris in the fishing area found 3.4 pieces of discarded netting per 1000 track miles.

7. Northwest Hawaiian Island Beach Debris Assessment - $13K

Hazardous marine debris was removed from beaches used by sea turtles and Hawaiian monk seals. Data on the debris were collected and seals have not since been observed entangled.

8. Dynamics of Derelict Gillnet in the North Pacific - $27K

A long term study was initiated to track the path and configuration of derelict gillnets released into the North Pacific Ocean over time. The study is still underway.

9. Impact of Ingested Debris on Sea Turtles - $30K

Captive turtle are being studied to assess behavior in the presence of marine debris and the effects of ingestion. Study results are expected in the spring of 1987.

10. Impact of Ingested Plastic on Sea Birds - $30K

A study is being undertaken to evaluate the effect of plastic ingestion on sea birds. The study was delayed until 1986 and results are not yet available.

11. At-Sea Marine Debris Survey Methodology - $20K

A study was undertaken to develop and test methodologies for quantitatively assessing the amount of marine debris at or near the sea surface. A report is available.

12. Expansion of Stranding Program Data - $8K

Partial support is being provided to develop a handbook for use in responding to marine mammal and sea turtle strandings. The handbook will identify data to be collected and recorded on entanglement or ingestion of marine debris.

13. Techniques for Assessing Debris Density by Plane $8K

A study to assess the feasibility of sighting debris at sea by plane was undertaken. Results of the study indicate a limited utility of available techniques.

C. MITIGATION

1. Methodologies to Reduce Disposal of Ship Generated Garbage At Sea - $84K

This two year study is designed to assess available information on incinerators and compactors which might be used to handle ship-generated garbage. Results are not yet available.

2. Research on the use of Degradable Materials - $49K

This study is designed to review information on techniques for making plastics degrade faster. The final report has just been completed.

3. Develop Regulatory Approaches to Resolve the Marine Debris Problem - No Cost

This ongoing task, being undertaken by existing staff, involves assessing existing and potential legal provisions.

D. PROGRAM MANAGEMENT - $54.1K

This component provides for the salary and expenses of the Entanglement Program Coordinator.

Fiscal Year 1986 Activities to Address Problems Associated with Debris in the Marine Environment

A. EDUCATION AND PUBLIC AWARENESS - $112K

This program continues the 1985 education program. It continues work started along the U.S. Pacific coast and initiates new work along the coasts of the Gulf of Mexico and the North Atlantic. It includes effort to develop material for television and radio public service announcements.

B. MARINE DEBRIS IMPACT RESEARCH AND ASSESSMENT

1. Alaskan Beach Debris Survey Methodology - $75K

This task continues efforts to monitor rates of debris accumulation on beaches in Alaska and to use of spectrometric methods for determining the age (longevity) of recovered marine debris. Results are yet not yet available.

2. Survey of High Seas Squid Drift Net Fisheries - $95K

This task continues efforts to monitor squid drift net fishing in the North Pacific. Additional data on lost debris was collected and a few fur seals were observed taken incidentally.

3. Hawaiian Island Endangered Species Monitoring - $15K

This task continues efforts to remove and monitor hazardous debris on beaches used by endangered Hawaiian monk seals and sea turtles.

4. Fur Seal Responses to Large Pieces of Derelict Fishing Gear and Entanglement Rates of Female Northern Fur Seals - $55K

These studies were to involve: a) assessments of the response of fur seals to large pieces of derelict fishing gear to assess the likelihood of entanglement in such debris b) to monitor the numbers of entangled seals on haul-out grounds, and c) to determine the energetic costs associated with debris entangled on fur seals. Task b was completed, task c was determined to be unnecessary, and task a was precluded due to difficulties in obtaining research permits prior to the end of the field season.

5. Northern Fur Seal and Sea Lion Pup Entanglement - $35K

Surveys were conducted along the Alaskan Peninsula and the Aleutian Islands to identify entangled northern fur seal and sea lion pups.

6. Study of Plastic Ingestion by Hawaiian Sea Birds - $20K

Partial funding was provided for a study to assess the amounts of plastic ingested by certain species of Hawaiian sea birds. Work is in process and will be completed in 1988.

7. Studies of the Dynamics of Derelict Gillnets - $15K

This continues the study initiated in 1985 to track the path and fate of derelict gillnets. The study should be completed late in 1987.

8. Benthic Impact of Marine Debris - $20K

This project will support a symposium to review available information on the effects of persistent debris which accumulates on the sea floor to develop a conceptual model of likely impact levels.

9. Marine Debris Impacts on Cetaceans - $23K

This project will compile available but scattered information on the impacts of marine debris on whales and dolphins. The project has not yet been completed.

C. MARINE DEBRIS IMPACT MITIGATION TASKS

1. Disposal Methods Development - $97K

This project provides funding support for a cooperative agreement with the Port of Newport, Oregon to develop a prototype port reception facility to receive and dispose of garbage from ships. The effort is now underway.

2. Fur Seal Rookery Clean-up - $5K

This project provides funds to remove hazardous netting and other debris from fur seal haul-out areas on the Pribilof Islands to reduce the risk of fur seal entanglement.

3. Photodegradation Processes in the Marine Environment - $24K

Controlled experiments will be undertaken to determine debris photodegradation rates in the marine environment. The study will allow an evaluation of the potential use of photodegradable plastics technology to reduce the hazard life of plastics lost or discarded in the marine environment.

D. PROGRAM MANAGEMENT - $76.7K

QUESTIONS SUBMITTED BY SENATOR DOMENICI

Question. Would your agency favor a biennial budget process? What benefits would your agency achieve in a two-year appropriations cycle?

Answer. The Administration is studying the subject of multi-year budgeting and whether to propose biennial budgeting for appropriations for accounts other than those in the National defense area.

Biennial budgeting would appear to have substantial advantage for a number of agencies. With respect to our agency, we would favor a biennial budget process. This would provide an opportunity to put longer range plans before Congress and to streamline the appropriations process. Although changes in plans would be needed from time to time, it appears to us that a two-year cycle would not preclude such changes. In fact, the need to discuss proposed changes while seeking approval would not be an inconvenience but rather would ensure that Congress is able to maintain a close overview of agency activities.

Question. Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

Answer. No portion is exactly the same. However, there are areas, such as personnel, in which the predictability of the changes makes the budget almost repetitious. If one were to look at this and other reasonably constant categories, perhaps 60 percent of our budget would qualify.

Question. What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?

Answer. We can foresee no difficulties.

Question. If you oppose the biennial budget concept, please give this subcommittee your reasons why.

Answer. We do not oppose the concept.

SUBCOMMITTEE RECESS

Senator HOLLINGS. This concludes our hearing this morning. The subcommittee will adjourn until Wednesday the 18th, when we will hear from the U.S. Information Agency and the Board of International Broadcasting.

[Whereupon, at 11:30 a.m., Wednesday, March 11, the subcommittee was recessed to reconvene Wednesday, March 18.]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

WEDNESDAY, MARCH 18, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m. in room S-146, the Capitol, Hon. Frank R. Lautenberg, presiding.

Present: Senator Lautenberg.

U.S. INFORMATION AGENCY

STATEMENT OF CHARLES Z. WICK, DIRECTOR, UNITED STATES INFORMATION AGENCY

ACCOMPANIED BY:

RICHARD W. CARLSON, ASSOCIATE DIRECTOR FOR THE VOICE OF AMERICA
MARK BLITZ, ASSOCIATE DIRECTOR FOR EDUCATIONAL AND CULTURAL AFFAIRS
ALVIN SNYDER, DIRECTOR, TELEVISION AND FILM SERVICE
CARL GERSHMAN, PRESIDENT, NATIONAL ENDOWMENT FOR DEMOCRACY
JOHN RICHARDSON, CHAIRMAN, NATIONAL ENDOWMENT FOR DEMOCRACY
STANLEY M. SILVERMAN, AGENCY BUDGET OFFICER

BUDGET REQUEST

Senator LAUTENBERG. Good morning and welcome. Mr. Wick, we are pleased to have you with us. We think that your agency renders a very important function. Our chairman, Senator Hollings, could not be here at the opening of this meeting but is expected to be here shortly. He asked me to preside until he arrives. My ability to substitute has to do with hair color.

[Laughter.]

Senator LAUTENBERG. This morning, the subcommittee is going to consider the requests of the USIA and the BIB, the Board for International Broadcasting. Both of these agencies have substantial increases to upgrade their radio programs: Voice of America and Radio Free Europe/Radio Liberty, respectively.

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We will begin with the USIA. The total amount requested is $941,-857,000, which is spread over six different appropriations. Additionally, USIA is requesting $17,741,000 in a supplemental for fiscal year 1987, mainly to offset exchange rate losses overseas and for the 3 percent Federal pay raise, the new retirement system, the U.S.-Pakistan fund, and to pay claims for Cuban broadcasting interference.

INTRODUCTION OF WITNESSES

Now, obviously we are pleased to proceed with the USIA director, Mr. Charles Z. Wick. Mr. Wick, you are accompanied, I understand, by Mr. Carlson of VOA, Mark Blitz on behalf of the Educational and Cultural Affairs, and Stan Silverman, the budget officer.

Mr. WICK. Excuse me. Also at the table is Al Snyder, head of our Television Service and WORLDNET.

Senator LAUTENBERG. Any names I leave out you will be given an opportunity to broadcast in a minute.

Mr. WICK. I do not want to hurt their feelings.

Senator LAUTENBERG. There are days around here when not having your name mentioned is a compliment.

Mr. WICK. I definitely know that too.

[Laughter.]

Senator LAUTENBERG. I particularly want to note the presence of Victor H. Li, the president of the East-West Center; Carl Gershman, president of the National Endowment for Democracy. The appropriation for both of these organizations is a part of USIA's request.

The Iran committee is meeting this morning, and that takes the time of both Senator Inouye and Senator Rudman. Senator Rudman particularly asked me to note to you his regrets at not being able to be with you this morning.

As you know, Mr. Wick, the total text of your statement will be in the record. I understand that you have a shorter version to present to us that includes a short tape. We ask you now to commence with your presentation.

BUDGET REQUEST

Mr. WICK. Thank you, Mr. Chairman. Without being too facetious, Senator, in view of the absence of the chairman, do we now refer to the Gramm-Rudman-Lautenberg budget cuts?

[Laughter.]

Senator LAUTENBERG. No. I voted against that. I feel better about the decision; I feel terrible about our deficit, and we do not want you to contribute to that.

Mr. WICK. We will try. It is just the other folks that we worry about.

GENERAL STATEMENT

Mr. Chairman, members of the subcommittee, I am pleased to appear before you this morning to present the U.S. Information Agency's appropriation request for fiscal year 1988.

Our request totals $941.9 million, an increase of $94.9 million over enacted amounts and pending supplementals. Some $84.9 million of the increase is for the Agency's basic programs. Of this amount, $77.2 million, or 91 percent, will be devoted to maintaining ongoing activities at the reduced level established in 1987. The increase covers new retirement and pay costs, overseas cost increases and the multiyear effort to modernize the Voice of America.

The balance of the basic program increase is requested to complete the worldwide network for the Agency's television program WORLDNET, $6.7 million, and to enhance exchange programs, $1 million. The remainder of the total increase, $10 million, is for the National Endowment for Democracy.

Even with these proposed increases, the Agency's operating budget will still be almost 6 percent below the 1967 level when expressed in constant dollars.

USIA is accomplishing more in the mid-1980s than ever before, with fewer people. Since 1981, USIA has played a revitalized role in the conduct of U.S. foreign policy. In six years, we have implemented over 47 significant initiatives that reflect USIA's active participation in public diplomacy and the Agency's entry into the electronic age.

Today, some 9,400 staff positions carry out these initiatives in addition to USIA's traditional programs, a 25 percent decrease in staffing levels from 1967. The ideals and goals of the Government and this society are now delivered immediately and accurately to larger audiences and to many more nations than in years past.

Evaluating the international scene over the past few years, the rise of the Solidarity movement in Poland, the downfall of Marcos and the election of Corazon Aquino in the Philippines, and the end of a dictatorship in Haiti, we can see the convergence of three forces: one, the growing power of public opinion over governments; two, the developing recognition that freedom is a natural right of every human being; and three, the global information revolution, brought about by a communications technology that can instantly spread ideas to every corner of the world. Thus, the role of public diplomacy in shaping each of these forces is undeniable.

USIA is working to make use of these technological developments to carry out our mission. One of the most exciting new dimensions of public diplomacy is our international satellite television network, WORLDNET, which links Washington with more than 100 cities in over 80 countries on five continents. WORLDNET harnesses the power of satellite television technology to bring up-to-date news and information about America to millions around the world in fulfilling our mission.

GLASNOST

In the past year, we have seen what has come to be called glasnost from the Soviet Union. We must wait to see whether this glasnost, this new openness from the Soviets, is a reality or merely a public relations strategy. We know already that glasnost represents a new awareness on

the part of the Soviet Union of the importance of world opinion and the need to use public diplomacy to influence that world opinion.

Without a strong and active U.S. Information Agency, the peoples of the world will lose the opportunity to hear our side of the story and to make intelligent choices.

A weak overseas information program, cutting back on our arsenal of influence, is as dangerous as a weak defense posture. A strong overseas information program is essential to our national security.

However, the budget cuts in fiscal year 1987 have caused damaging airtime reductions of 130.5 hours per week, or 10 percent, at the Voice of America; the loss of posts in Antwerp, Trieste, Guayaquil, and nine other installations, and other cuts in overseas operations; youth, visitor and academic exchange reductions; and cuts in most other Agency programs. These reductions, including the elimination of some 300 positions, come at a time when the work of the Agency is more crucial than ever in the conduct of our foreign policy.

Because of these cuts, our 1987 resource base is extremely tight. We have absorbed 59 percent of the January pay raise but are unable to find room to absorb additional needs in 1987 and have requested supplemental funding totaling $17.7 million. Of this total, $17.1 million, or 97 percent, is for unavoidable built-in increases in the cost of doing business including increased pay and retirement costs of $8.6 million, an offset for net exchange rate losses of $7.5 million, and payment of claims rising from earlier Cuban interference with broadcasting in the United States of $1 million, pursuant to the Radio Broadcasting to Cuba Act.

The remaining $600,000 would use existing rupee balances for a one-time endowment of the U.S.-Pakistan Fund for Cultural, Educational and Scientific Cooperation. These Pakistani rupees accrued to the U.S. Government between 1954 and 1967 under the Information Media Guaranty [IMG] program. These funds are currently being held in a Pakistani bank, and they can only be used for projects mutually agreed upon by Pakistan and the United States. After years of negotiation, we have reached agreement to use the funds under the United States-Pakistan program for Cultural, Educational and Scientific Cooperation to establish an English language teaching program. The Government of Pakistan has already committed Rs. 1,000,000 to this project in 1987 and Rs. 2,600,000 in 1988 and 1989.

We urge your favorable consideration of this House Appropriations Subcommittee-approved supplemental request. Should this supplement not be enacted, we would be forced to take further cuts. Because of our already reduced fiscal year 1987 base and the passage of time, these would be severely damaging to all of our operations.

Even with the realization that America needs a strong public diplomacy program, we have scaled back our 1988 request in recognition of the many competing priorities and needs of this Nation.

But, while we have made painful reductions and restrained our request, we cannot continue to cut overseas posts and positions, delay

modernization efforts, cut participants in our exchange programs and preserve an active, effective public diplomacy effort by the United States.

BUDGET INCREASE

As indicated earlier, we are requesting $941.9 million for fiscal year 1988, an increase of $94.9 million over enacted and pending 1987 supplementals. Most of this increase is required to maintain the Agency's programs at the reduced levels established in 1987 and to continue the modernization of the Voice of America's technical facilities.

Specifically, the increase will provide $18.7 million for added costs of the new Federal retirement system and the January 1987 Federal pay raise, $35.1 million to meet inflationary increases and other built-in operating cost increases, $24 million to continue ongoing VOA modernization projects, $6.7 million to complete regular worldwide coverage by the Agency's dramatically effective international television satellite program WORLDNET, $1 million to enhance exchange programs, particularly with South Africa, and $9.4 million to expand programs of the National Endowment for Democracy.

Mr. Chairman and members of the subcommittee, the security of this country is inextricably tied to our public diplomacy efforts. When we, at USIA, do our work well, when countries around the world come to have a better understanding of America's policies and of the Soviets' intensive disinformation efforts, then it follows that the chances for conflict are lessened.

It is more cost effective to wage a campaign of words than a campaign of war.

TAPED PRESENTATION

I would like at this time, with your permission, to take a few minutes to show a short taped presentation which I believe demonstrates USIA at work, in the context of America's public diplomacy needs.

Thank you. I would be happy to answer any questions you may have.

[The videotape presentation was shown.]

[The prepared statement of Mr. Wick follows:]

Prepared Statement of Charles Z. Wick
Director
United States Information Agency

Mr. Chairman, Members of the Subcommittee:

I am pleased to appear before you this morning to present the U.S. Information Agency's budget request for fiscal year 1988.

Our request totals $941.9 million, an increase of $94.9 million over the 1987 enacted amount of $829.3 million plus a pending supplemental request of $17.7 million. Some $84.9 million of the increase is for the Agency's basic programs. Of this amount, $77.2 million -- or 91% -- will be devoted to maintaining ongoing activities including new retirement and pay costs, overseas cost increases, and the multi-year effort to modernize the Voice of America.

The balance of the basic program increase is requested to complete the worldwide network for the Agency's TV program WORLDNET, $6.7 million, and to enhance exchange programs, $1.0 million. The remainder of the total increase, $10 million, is for the National Endowment for Democracy.

Even with these proposed increases, the Agency's operating budget in FY 88 will still be almost 6 percent below the 1967 level when expressed in constant dollars.

I believe our budget, viewed from this perspective, shows our clear understanding of the tight fiscal climate in which we must operate. We have made drastic cuts to live within available resources, and we have worked creatively to do more with less.

USIA is accomplishing more in the mid-1980s than ever before, with fewer people. Since 1981, USIA has played a revitalized role in the conduct of U.S. foreign policy. In six years, we have implemented over 47 significant initiatives that reflect USIA's active participation in public diplomacy and the Agency's entry into the electronic age. Today, about 9,400 USIA employees carry out these initiatives in addition to USIA's traditional programs, a 25% decrease in staffing levels from 1967. The ideals and goals of the government

and this society are now delivered immediately and accurately, to larger audiences and to many more nations than in years past.

Importance of Public Diplomacy

I realize the difficult work that is before the members of this subcommittee, and I understand that you must juggle many conflicting priorities from many parts of our government. But in this competitive climate, I ask that you focus for a few moments on USIA and the vital work we do.

Given the state of the world today, with all of its attendant dangers to free societies, I believe we need to ask -- what is the appropriate level of support for our efforts to speak the truth to the world about America in a strong, clear and vigorous voice?

It is not simply rhetoric to say that public diplomacy -- where governments speak directly to people -- has come of age in recent years, and that it can only continue to grow as a integral part of the way we conduct our foreign affairs. The explosive growth of information and communication technology -- the instant nature of communication -- mandates the use of public diplomacy. We live in times where it is possible to deliver compelling images instantly into the homes of people around the globe.

Evaluating the international scene over the past few years -- the rise of the Solidarity movement in Poland, the downfall of Marcos and the election of Corazon Aquino in the Philippines, the end of a dictatorship in Haiti -- we can see the convergence of three forces:

-- the growing power of public opinion over governments;

-- the developing recognition that freedom is a natural right of every human being; and

-- the global information revolution, brought about by a communications technology that can instantly spread ideas to every corner of the world.

The role of public diplomacy in shaping each of these forces is undeniable.

Technological developments in international communication have brought a greater awareness of the "global village" nature of our world. The issues of the day -- trade, environment, drug problems, food shortages, health -- all

demonstrate the interconnected nature of this world. All of these issues affect not just one society or group but all of us who inhabit this planet.

USIA is working to make use of these technological developments to carry out our mission. One of the most exciting new dimensions of public diplomacy is our international satellite television network -- WORLDNET -- which links Washington with more than 100 cities in over 80 countries on five continents. WORLDNET harnesses the power of satellite television technology to bring up-to-date news and information about America to millions around the world.

Since November 3, 1983, when WORLDNET held its first satellite press conference, there have been over 345 interactive programs involving American policy makers responding to questions from foreign interlocutors. We've added daily television service to Europe and most recently Latin America, continuing this vital dialogue to important regions on a regular basis.

We estimate from post reports that WORLDNET broadcasts, from the first telecast through December 31, 1986, have resulted in over 4 billion gross cumulative viewer impressions. WORLDNET will continue to open new frontiers, giving people in all parts of the world an opportunity to hear -- and to see -- America first hand.

In 1983, the Belgian magazine Western World said of WORLDNET, "In the long run, this communications link-up between Western Europe and the U.S. may prove more important to the Alliance than the 'coupling' of the defense of the two continents by stationing of the American Pershing II and cruise missiles in Europe."

In Western Europe, WORLDNET's daily service is carried by 96 cable systems, 121 hotels and 8 regular broadcast television stations. WORLDNET has increased the Agency's media placement dramatically.

While WORLDNET has been extremely successful with its program placement over the past year, there is growing competition. For example, the Soviet Union's Ghorizont satellite service beams 16 hours a day of broadcasts in Russian to Sweden while we are currently only able to broadcast two hours per day in English.

The Cuban government is currently broadcasting programs three days a week via the Soviet's Ghorizont satellite to their troops in Angola where special earth stations have been installed for reception. The Cuban service in Latin

America is limited in scope but there are indications that they plan to expand it substantially.

In the past year, we have seen what has come to be called "glasnost" from the Soviet Union. We must wait to see whether this "glasnost" -- this new openness from the Soviets -- is a reality or merely a public relations strategy. We know already that it represents a new awareness on the part of the Soviet Union of the importance of world opinion and the need to use public diplomacy to influence that public opinion. This use of public relations techniques by the Soviets is also an attempt to deflect the world's gaze from the continuing human rights violations within the USSR, their efforts to subjugate surrounding territories and to denigrate the U.S. throughout the world.

Without a strong and active U.S. Information Agency, the peoples of the world will lose the opportunity to hear our side of the story and to make intelligent choices.

A weak overseas information program, because it cuts back on our arsenal of influence, is as dangerous as a weak defense posture. A strong overseas information program is essential to our national security.

The Soviet Union spends vastly more than the United States to gain international support. The USSR employs seven times more people in its overseas information program. They distribute many millions more books, bring many thousands more students under official auspices to their country, have a larger and stronger radio system, broadcasting more hours with a stronger signal in more languages each week. Just one example: All of USIA's book programs combined total approximately 5 million books distributed abroad compared with 80 to 100 million distributed by the Soviets. We also understand that the Soviets are the third largest publishers of books in Spanish, the second in French, the third in German and the second largest publisher in the world in all of the Indian languages.

No precise figures are available for the level of resources that the Soviets commit to public diplomacy. But based on the best data available, we estimate that the Soviet Union outspends us by at least two to one in international information activities. We understand that the Soviets spend

more to jam U.S. broadcasts to Eastern Europe and the Soviet Union than the cost of those broadcasts.

None the less, the VOA is getting through. "Hearing your name on the BBC or VOA is the best assurance that the KGB will think twice before cracking down on you." So wrote Soviet dissident and recent immigrant, David Goldfarb in the December 28, 1986, issue of the New York Times Sunday magazine section. I believe that we must ensure that America's voice is heard loud and clear.

1987 Budget Situation

However, the budget cuts in FY 1987 have caused damaging reductions at the Voice of America, in overseas operations, exchanges, and in most other Agency programs. These reductions come at a time when the work of the Agency is more crucial than ever in the conduct of our foreign policy.

As a consequence of these budget cuts:

— The Voice of America reduced broadcasts by 130.5 hours weekly, or over 10 percent, in 8 languages -- the largest single cut since the 1950s;

— the Agency has closed twelve posts and centers abroad, including such European centers as Antwerp and Trieste, and branch posts in Guayaquil, Ecuador and Kano, Nigeria. We have also deferred planned branch post openings at three key locations, and have made extensive staff and program activity funding cuts at most of our other posts;

-- exchange programs, particularly the International Visitors and Academic Exchange programs, were reduced;

-- most program support for the overseas missions was also cut sharply. For example: book programs were cut by over 19 percent; centerpiece exhibits by 38 percent; American speakers by 11 percent; and visual and performing arts by 10 percent;

— and the Agency eliminated over 300 positions.

Because of these cuts, our 1987 resource base is extremely tight. We are unable to find room to absorb additional needs in 1987, and have requested supplemental funding totalling $17.7 million. The House Appropriations Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies has recommended approval of the entire amount to the full Committee. Of this total, $17.1 million, or 97 percent, is for unavoidable built-in increases in the cost of doing business, including:

--Federal pay and wage board increases totalling $2.7 million. USIA pay costs in 1987 will total $6.6 million, and this supplemental will meet only 41 percent of our needs. The Agency will absorb the remaining 59 percent from its already reduced 1987 base;

--Costs due to the enactment of new retirement systems (Federal Employees' Retirement System - FERS - and Foreign Service Pension System - FSPS) totalling $5.9 million;

--Payment of claims resulting from Cuban interference with broadcasting in the United States totalling $1.0 million; and,

--Compensation for net exchange rate losses through November 1986 totalling $7.5 million.

--The remaining $.6 million would allow us to use U.S.-owned Pakistani Rupees to endow the United States-Pakistan fund for Cultural, Educational and Scientific Cooperation. This fund would support the newly-formed American-oriented National English Language Institute in Pakistan, and would be a one-time payment representing the full extent of the USG funding commitment.

We urge your favorable consideration of the House Subcommittee-approved supplemental request. Should all, or part, of this supplemental not be enacted, we would be forced to take further cuts. Because of our already reduced base, these would be particularly harmful. Examples of these further cuts follow.

--VOA would be forced to cut an additional 70 to 130 hours of broadcasting, bringing reductions for the year to over 20 percent of airtime.

--Personnel responsible for the modernization effort would be cut back, with the result that new construction would fall further behind schedule or be built without adequate U.S. supervision.

--Stocks of fuel and spare parts would be further drawn down to dangerously low levels, which would probably cause widespread transmitter outages.

--The damage to the Voice of America would be permanent. Listening audiences built up over 45 years would rapidly dissipate if our broadcasts go off the air, and the modernization program would suffer gravely.

--We would be forced to close even more overseas installations. Personnel at others would be reduced.

--Book programs would be cut. Our program in China, the Philippines, and Indonesia would be hurt, and new book projects for Greece and Turkey would be eliminated.

--Several more important Youth Exchange projects would be eliminated.

--Our ability to protect our American officers overseas would be diminisned.

--Funding for our posts' support activities would be reduced further. American lecturers abroad, libraries, study of the United States abroad -- all the tools by which we further international understanding -- would be slashed.

--Other support activities, such as training, upgrading of our communications with USIS posts overseas and similar items, would be cut. While these cuts may not sound dramatic, they would inevitably degrade our performance across the entire spectrum of our activities.

Recent Accomplishments

In the area of U.S.-Soviet relations, we are following the President's lead as expressed in Geneva and more recently in this year's State of the Union speech when he said, "We Americans have always preferred dialogue to conflict and so we always remain open to more constructive relations with the Soviet Union. But more responsible Soviet conduct around the world is a key element of the U.S. - Soviet agenda."

I would like to mention two areas where USIA has been working to create more "constructive relations" with the Soviet Union. The first is what has come to be called, "The Broadcast Initiative." During the Iceland Summit, General Secretary Gorbachev stated to President Reagan his interest in access by the Soviets to the United States on AM radio. At the same time, I was meeting with senior Soviet Communist Party Central Committee official Aleksandr Yakovlev, who also raised this possibility.

At Reykjavik, on the subject of jamming, I made it clear to Mr. Yakovlev that their actions were illegal under international law and the U.S. remained unalterably opposed to the practice.

During this meeting, an effort was made to initiate reciprocal media access. This proposal dates back to January of 1985 when I made a similar proposal in writing to the then head of the International Information Department of the Central Committee, Leonid Zamyatin to explore the

possibilities of exchanging television broadcasts and acquiring airtime by each side on the other's medium wave radios.

The proposals for a reciprocal broadcast exchange were made in an attempt to increase the free flow of information between our two countries. Earlier our efforts to achieve this free flow resulted in the 1986 New Year's day television exchanges with Gorbachev and the President.

On November 21, 1985, the United States and the Soviet Union signed a new General Exchanges Agreement in Geneva which has given new life to numerous pre-existent academic, educational, and people-to-people exchanges which were established more than 25 years ago but reduced after 1979. In January of 1986, the Office of the President's Coordinator for U.S.-Soviet Exchanges was established. Ambassador Stephen Rhinesmith heads this office at USIA.

During these first early stages of the agreement, new youth exchanges, film series, exhibitions, musical performances, professional conferences, and teacher exchanges between our two countries have taken place. The American private sector has generated many innovative proposals to resume academic, cultural and performing artist exchanges between the two countries.

Among the activities that are happening now or planned for the coming months are long-term exchanges of language teachers and curriculum consultants; a tour of "An American Vision: Three Generations of Wyeth Art," (a show that will travel extensively and is sponsored by AT&T;) and a nine-city tour of the Soviet Union by "Information USA," (a USIA exhibition on the communications and information revolution in the United States.) When this exhibit opens in June of this year, it will mark the first major USIA exhibit to be shown in the Soviet Union in seven years. Of course, USIA also provided extensive assistance to the much-publicized Vladimir Horowitz concerts in the Soviet Union.

I believe this past year demonstrates the Agency in action at its best. Here are highlights from this past year which I hope will give you a sense of our recent work and our accomplishments.

— On January 14th of this year, a Washington Post editorial wrote of the demonstrations in China: "Still, nothing the American officials say about China is nearly as important as what the government's radio, the Voice of America, says to China. VOA, by doing what it was already doing, offers its

millions of Chinese listeners an alternative to the official press's report on events in China. For doing this job, the Voice has come under some criticism in Beijing, but it seems to be giving the available news straight and, in that vital way, making a major and appropriate contribution to China's uncertain democratic passage."

-- Some 130 million adults around the globe now listen to VOA at least once weekly, according to a comprehensive update on listenership released by USIA's Office of Research. Their estimate -- which is 11 million greater than last year's -- is based on an extensive review of all available survey data. This huge audience does not include occasional listeners or the others who tune in to Radio Marti and our FM/cable outlets in Western Europe or hear VOA programming carried on their local stations.

— This was the year that marked the 40th anniversary of the Fulbright program. Celebrations of the anniversary were held in many countries and USIA's celebrations culminated with a Washington conference to explore future directions of the program. Praise for the program came from around the world. TIME magazine essayist Roger Rosenblatt said in an essay on the MacNeil/Lehrer program: "People know the whole world a lot more intimately today than they did 40 years ago, thanks more to TV than to the Fulbright program. But the Fulbright idea advocated a special deeper sort of knowledge that embraced the world as both mysterious and kind."

— In March of 1986, in an unusual move, The New York Times reversed itself in an editorial about the Radio Marti Program of the Voice of America. Referring to an editorial that had appeared in the Times ten days earlier, they said, "'Cruel and Unusual Banishment,' was unfair to Radio Marti, the U.S. Information Agency station that has been broadcasting to Cuba since May 1985. Contrary to our statement, the station appears to have found a responsive audience and filled a void in Cubans' information. Contrary to our fears last year, it has avoided propaganda and supplemented, not duplicated commercial Spanish-language broadcasts from Florida."

— In September, former Cuban political prisoner Armando Valladares told the House Foreign Affairs subcommittee on International Operations that Radio Marti has penetrated the void of information that exists in Castro's Cuba today. Valladares also told the subcommittee that, although Cubans can be

fined -- or worse -- for listening to Radio Marti, it is not unusual to hear Marti's broadcasts streaming from radios in cars and homes in Cuba. In a letter to the director of Radio Marti, Cuban human rights leader Ricardo Bofill wrote, "It seems to me that there will come a time, with respect to the problems existing in Cuba today, in which we will have to talk about the time before and after Radio Marti went on the air."

-- We have begun to bring USIA's Wireless File into the modern computer age by transmitting it directly from Washington into the offices of foreign newspapers and editors. The File provides texts of official speeches and press briefings, as well as backgrounders on U.S. political, social, scientific and cultural issues. Last fall we ran a 90-day experiment, in which we sent the File directly into German newspapers. We are planning one more test in another geographic region, before moving to expanded implementation.

-- This year marks another important anniversary -- the twenty-fifth anniversary of the National Council for International Visitors. The Council and its 101 local organizations made up of some 800,000 volunteers arrange appointments and provide American hospitality for foreign participants in USIA's International Visitor Program. For every dollar the government spends, IV volunteers contribute an estimated fifteen dollars through cash and in-kind donations. More than 85,000 visitors have been hosted under the program. Forty-two of them, who participated earlier in their careers, are currently the heads of government of their countries.

-- Former Speaker of the House Tip O'Neill captivated a high-level WORLDNET audience in December of 1986 with reminiscences of his long political career. Dublin, one of the interactive posts for the telecast, reported later that it "made all the Irish proud." The event was covered in its entirety by national TV and radio and all major dailies, and the leader of the Irish opposition and senior government members attended.

-- USIA's Arts America staff organized a number of cultural presentations over the past year. These include a tour of China by the Alvin Ailey American Dance Theater; a tour in the Near East by the Minnesota Opera; a tour of Africa by the Miami Dade Jazz Ensemble; a Latin American tour by the Hubbard Street Dance Theater; a tour of Europe by the Billy Taylor Trio and a tour by

Magnificent Force -- a group of four young breakdancers who enthralled young audiences in five posts in the Near East and South Asia.

— Our Foreign Press Center helped the Japanese newspaper Yomiuri Shimbun arrange interviews with seven cabinet members, including Secretary Shultz and Secretary Weinberger, for a special series in the newspaper. With Secretary Gorbachev scheduled to visit their country, Japanese have begun calling 1987 "USSR Year" in Japan. The series was conceived as a way to help put the spotlight back on the United States. Yomiuri, with a readership of 9 million, is the largest circulation daily in the free world.

— 1986 was a record year for briefings at the Washington Foreign Press center with a total of approximately 200 given by cabinet officials, Members of Congress, and representatives from academia, the arts and sciences, and sports. This past year, over 25 tours were arranged for foreign correspondents by the Los Angeles Foreign Press Center. The New York Foreign Press Center assisted more than 800 foreign correspondents covering the Statue of Liberty celebrations last July.

-- Last year, with funds made available by the Supplemental Appropriations Act, 1985, USIA created the CAMPUS program (the acronym stands for Central American Program of Undergraduate Scholarships) for an initial group of 154 students. In 1987, we plan to evaluate the program and, given a favorable result, to proceed with the selection and placement of a small group of 90 students. For the third class, to be funded in fiscal year 1988, we plan to restore the program to its initial level of 154 grants. These students -- all financially disadvantaged -- would not normally be able to afford an American education. Said U.S. Ambassador to El Salvador Edwin Corr of the CAMPUS program, "It will shape their views of the United States in a way that could not have happened in any other fashion...as you fight the battle of the budget...I hope you will try to keep this program going."

— With assistance from USIA's Office of Academic Programs, the Georgetown University Law Center has established a program to help black lawyers from South Africa win the right to practice before that country's Supreme Court.

-- USIS Seoul began publishing a Korean-language tabloid in response to growing anti-Americanism among Korean university students. About 20,000 copies of each monthly issue are distributed to Korean students and

academics. Each issue includes official statements on issues of concern to Koreans, as well as background articles on international affairs, security issues, the U.S. political process, and American society -- all areas were our critics in Korea have made inaccurate charges.

-- New code-a-phone installations in three Latin American capitals now link VOA's Spanish branch to local stations. The system enables radio stations to call in and record a correspondent's story for re-broadcast later. Five Colombian networks with 165 affiliates have direct access to USIA Bogota's code-a-phone. Costa Rica and Argentina also have links with the Spanish branch and Brazil has been using the code-a-phone with remarkable success for over two years.

-- USIA library research -- a valuable but not often a high profile activity -- can be vital in times of crisis. In the days and months following Ferdinand Marcos' departure, USIA's Thomas Jefferson Cultural Center in Manila was swamped with research requests on subjects ranging from the organization of a revolutionary government to the writing of a constitution. The quick and thorough response by USIA librarians had an impact on questioners from all segments of society: government officials, oppositionists, citizens' groups, journalists and the national legislature and constitutional commission.

-- Through active USIS post placement, WORLDNET programs have produced a surprising multiplier effect, for example: USIS Brussels reproduces the daily WORLDNET European TV feed for English language teaching centers and schools throughout Belgium; USIS Paris distributes the program country-wide to students working on American studies for foreign teaching certificates; USIS Vienna acts as a daily distribution center, sending tapes to American embassies throughout Eastern Europe where they are played on television screens in embassy windows facing busy streets where they draw very large crowds; and USIS Quito participated in a WORLDNET interactive program on earthquakes which has now become a standard fixture in Ecuador's official civil defense emergency preparedness training. WORLDNET also reaches presidents, cabinet ministers, think tanks, university faculties, military academies and other influential host country institutions.

-- Our posts in New Delhi and Calcutta continued their counterattacks against the Soviet-supported disinformation campaign in India that blames the

U.S. for the spread of AIDS. As a result, two of India's most important English-language dailies, The Times of India and The Statesman decided to set the record straight. Wrote the Times, the spread of this story "strongly points to a systematic, Soviet-inspired and by now fairly successful disinformation program." Numerous Wireless File stories have done much to effectively counter this disinformation as it appears around the world.

-- In May of last year, USIS Japan provided on-the-ground expertise and support to the White House Press Office and approximately 800 American and third country journalists in Tokyo for the seven nation economic summit. USIS Japan played a key role in ensuring that the American delegation was instantly informed of public affairs events happening during the summit, and that the views of the delegation were disseminated to the worldwide audience of millions.

-- In November of 1986, 11 political party leaders from nine Latin and Central American countries ended a 17 day visit to the U.S. made possible by a grant from the Office of Private Sector programs. The travel/study tour was designed to further democracy in the hemisphere by strengthening ties between Latin American political leaders and their American counterparts. Approximately half of the group members now occupy highly influential positions with their respective countries. For many, it was their first visit to the U.S.

-- "Newsfile," USIA/TV's innovative, Tuesday-to-Friday, 10-minute newsclip of current American news events, now an integral part of the daily WORLDNET feed to Latin America, is getting rave reviews from our Latin American posts. Sample post comments include: "...gave us our first placement ever on the nation's major evening news show;" "With it, we daily feed the largest government owned-TV station, its 120 affiliates and some 40 cable systems;" and "at least one item is used daily -- and sometimes the entire 'Newsfile' feed is used."

-- Douglas Turner Ward, founder and artistic director of the famed Negro Ensemble Company, spent two weeks as a USIA American Cultural Specialist in Nigeria, were he acted as a guest director for a production of one of his plays by a Nigerian theater company.

-- America Illustrated, USIA's Russian-language monthly magazine,

celebrated its 30th Anniversary in October of this past year. It is published under an agreement, renewed at Geneva last November, that provides for its distribution of 62,000 copies per month in the Soviet Union in exchange for the distribution of Soviet Life in this country. Despite the fact that the Soviets return approximately 8,000 monthly as 'unsold,' we understand that back issues sell at 8 or 10 times the 75¢ cover price on the black market.

-- In September of 1986, USIS Indonesia opened a new library and cultural center to respond to a need to give more information about the U.S. to an important but information-poor society where foreign books are expensive and hard to get. The library has been flooded with up to 700 patrons a day, eager to use its collection of books, periodicals, and videotapes. Overall attendance and usage already ranks it as the second most active USIS Library worldwide, and the harried staff has had to struggle to keep up with the demand.

-- The Philippine people were able to see significant events of the official working visit of President Aquino to the United States with the help of USIA/TV's special projects staff. Technicians worked throughout the night to transmit feeds to the Philippine media of each day's events, including the live broadcast of President Aquino's address before a joint session of Congress.

-- An electronic dialogue with Arab-Americans in Jacksonville, Florida, and a panel of scholars and journalists in Saudi Arabia was termed by the post "one of the most successful USIA media events in local memory." The U.S. participants from the Florida State Legislature delivered highly persuasive counter arguments to frequently exaggerated and inflammatory Saudi media accounts of widespread and violent discrimination against Arab-Americans in U.S. communities. The speakers were so convincing in their pride in being "completely assimilated, prosperous and productive citizens of the U.S." that some Saudi newsmen felt frustrated, having hoped for a juicier story.

-- USIA in Nairobi called the American Participant visit of Pennsylvania Governor Richard Thornburgh one of the most successful AmPart programs in recent memory. Kenyan ministers, small town officials, businessmen, university faculty, and lawyers who met with him appreciated his practical rather than theoretical approach. Kenyan President Moi met with the Governor

and reminisced about his own experiences visiting Pennsylvania in 1961.

-- New evidence of the excellent reputation of USIA's magazine "Problems of Communism" was submitted by our posts overseas. The Bonn-based publication"Kontinent" published a German translation of an article from the magazine's January-February issue on Moscow's Afghan War; a British university has requested permission to reproduce "Problems of Communism" material on Eastern Europe in a forthcoming textbook; and the BBC European Service asked for 12 subscriptions for its research and information section.

-- A televised electronic dialogue with singer/composer Stevie Wonder to Abidjan provided a surprise for everyone. Ten minutes before the program began, Wonder sat down at his special keyboard for the blind and composed a song in French, "Je t'aime beaucoup, Abidjan," with which he opened the dialogue.

-- Dr. Haing Ngor, 1985 winner of an Academy Award for his performance in "The Killing Fields," talked in March with VOA's Khmer language service. Before his escape from Cambodia in 1979, Ngor said he listened secretly to VOA daily using a set of batteries which he carefully recharged and used only for VOA broadcasts. He praised VOA newscasts, especially reports dealing with the Cambodian situation.

-- At the conclusion of a VOA interview, Anatoly Shcharansky said the first and foremost role of stations like VOA is that they are the sole source of information for the Soviet people about what is going on in the West and in their own country. Thousands of Soviets, he added, wrote to Helsinki Watch group members after obtaining their addresses from foreign broadcasts. Andrei Sakharov, when interviewed by VOA in January said, "This is the best that we hear from America."

-- A number of former Humphrey Fellows have recently achieved significant advances in their careers. Roberto Spolido, a '84-'85 Fellow from Brazil, has become Technical Advisor to the Ministry of Science and Technology in Brazil.His Excellency Proces Bigiramana, a '80-'81 Humphrey fellow from Burundi, now represents his country as ambassador to the USSR. At least three Fellows, one from Malaysia, one from Peru and one from Colombia, have become Special Advisors to the Ministries of Finance in their own countries. The Humphrey Fellowship program to date has reached 858 mid-career professionals

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from developing nations for a year of study and immersion in American culture and society.

-- One of USIA's top priorities during the past year, and continuing this year, has been counter-terrorism. Key government officials have explained the U.S. position on terrorism through teleconferences arranged by USIA and have discussed the issues on WORLDNET interactive broadcasts. Agency media provided comprehensive coverage of the January 1987 conference on "Terrorism in a Technological World." During the conference, which was organized by "Discover" magazine, Vice President Bush, Secretary of Defense Weinberger and Attorney General Meese provided high-level policy statements on Administration counter-terrorism policy. A USIA officer has joined the staff of the Ambassador-at-Large for Combatting Terrorism and will direct this interagency public diplomacy effort. USIA responded to the increased threat from terrorism against its establishments by conducting security inspections at 131 overseas posts during the past two years. Security enhancement projects were initiated at many of these posts.

These highlights from 1986 cannot serve as a comprehensive record of the work of USIA, but I hope that they show the range of our activities. And that they show the many tools we use to carry out this country's public diplomacy activities.

1988 Budget Request

As indicated earlier, we are requesting $941.9 million for FY 1988, an increase of $94.9 million over our enacted amount plus pending supplementals. Most of this increase is required to maintain the Agency's programs at the reduced levels established in 1987 and to continue the modernization of the Voice of America's technical facilities. Specifically, the increase will provide:

-- $18.7 million for added costs of the new Federal retirement system, the January 1987 Federal pay raise, and related costs;

-- $24.0 million to continue on-going projects necessary to modernize and replace the Voice of America's antiquated transmitting facilities;

-- $18.5 million to meet price increases, both domestic and overseas;

-- $16.6 million for GSA rent increases, wage scale increases and other built-in cost increases;

-- $7.7 million to complete the Agency's dramatically effective international television satellite program, WORLDNET ($6.7 million), to enhance exchange programs with South Africa ($.6 million), and to improve the support infrastructure for the International Visitors Exchange program ($.4 million); and

-- $9.4 million to expand programs of the National Endowment for Democracy.

The security of this country is inextricably tied to our public diplomacy efforts. When we, at USIA, do our work well, when countries around the world come to have a better understanding of America's policies, then it follows that the chances for conflict are lessened.

For example, both before and during the deployment of the Pershing and Cruise missiles in Western Europe, amidst a torrent of Soviet disinformation, USIA played a crucial role in explaining to Western European audiences that the missiles would preserve the peace and deter war. The question of the health and continuity of the NATO alliance is played out every day in the public arena. It is in this arena, where, if America is to succeed, our public diplomacy must succeed. It is far more cost effective to fight a campaign of words than a campaign of war.

Mr. Chairman and members of the subcommittee, I believe that public diplomacy is a key investment in the relations of this country with other countries in the world. We cannot afford to let other countries remain ignorant of America's aspirations and motives. Nor can we allow Americans to remain isolated from the concerns of other countries. To do so would be to leave ourselves singularly ill-equipped to deal with the present and ill-prepared for the future. I ask for your continued support and assistance for USIA as we carry out our mission. Thank you.

WORLDNET NETWORK

Mr. WICK. Senator, the way the WORLDNET works is that we put dishes on our embassies in West Europe. We have 32 there now and we hope to have 60 eventually. We are also broadcasting to Latin America, and we have 12 dishes now in Latin America.

Senator LAUTENBERG. So we pull the signal down. Now, how does it get distributed to the home?

Mr. WICK. One of the benefits we have is that radio, print and television media correspondents, as well as government officials and quasi-government officials who are interested in the issues, come to our embassy. Local television stations also pull the signal down.

Senator LAUTENBERG. So it is available if they want it.

Mr. WICK. That is right.

Senator LAUTENBERG. When you do radio broadcasts, you do not have to depend on a system within a country for people to be able to get the signal?

Mr. WICK. You are absolutely right. However, with the impact of this, we depend upon the newspapers and other media. We have broad replications. We have documentation this high [indicating] showing use of our broadcasts. The Inspector General reviewed something like 14,000 reporting cables from our various posts around the world.

Senator LAUTENBERG. Which said the employees of our posts are enjoying the programs. I do not want to appear more cynical than I am. I have to tell you something. I am a hard-nosed business man.

Mr. WICK. I am a business man too.

Senator LAUTENBERG. I like to see these things presented as facts. That kind of thing, the videotape, if I were not sitting in Senator Hollings' chair, if I were sitting down there in my junior post, I would discuss it with you.

Mr. WICK. Those are facts, and I will be happy to present you with the facts relating to the pick-up we have gotten on television and also the papers. It has been dramatic.

Senator LAUTENBERG. I am on your side of the ledger. I think the marketing tool is so-so: too many Congressmen there.

[Laughter.]

BROADCASTING TO CENTRAL AMERICA AND CARIBBEAN AREA

Senator LAUTENBERG. On a serious note, I think it is an overextension of marketing. I would urge you to do what you did, and that is to make your presentation. There is a powerful message inherent in the system itself. I think all of us want to hear that message and want to support it.

I would ask you this. Do we go into Nicaragua?

Mr. WICK. By radio?

Senator LAUTENBERG. Yes.

Mr. WICK. Yes. We are getting into Nicaragua.

Mr. CARLSON. We have a medium-wave station in Belize, Senator.

Senator LAUTENBERG. Do we know if people are listening or not down there?

Mr. CARLSON. We do have reports but certainly nothing that we can rely on statistically. We are received loud and clear in Managua. We also broadcast from Costa Rica from a station that is along the Nicaraguan border; it does not reach Managua but does reach many parts of Nicaragua on medium wave.

Senator LAUTENBERG. Excellent, because as I stated before, it is far more cost effective to wage a campaign of words than a campaign of war. I appreciate that endorsement of my view on this subject.

Mr. WICK. We also have a post in Managua and we get information from them, readbacks and feedbacks, which is a help.

EXCHANGES WITH SOUTH AFRICA

Senator LAUTENBERG. I could not agree with you more. We ought to be sending more words into Nicaragua.

You talked about an exchange with South African students. Who picks the students that come?

Mr. WICK. Mark Blitz is head of that department.

Mr. BLITZ. The students that come are picked by our post in South Africa, sometimes together with the cooperating U.S. institution which is in charge of the activities. We have this year 106 South Africans in the United States on one or another of our programs. The specific increase we are asking for is for 30 more to expand English language and English teaching programs for black South Africans and for a legal education program that we began.

Senator LAUTENBERG. Is the majority black or white?

Mr. BLITZ. On these particular programs, they are black. On the whole panoply of programs, it is mixed in a variety of ways.

VOA SITE AGREEMENT WITH ISRAEL

Senator LAUTENBERG. Thank you.

I wanted to ask you this, Mr. Wick. Last year Mr. Mort Smith told us that the single most important station in the whole worldwide VOA system would be in Israel. If that is the case, why are no funds requested for a station in Israel?

Mr. WICK. We have not signed an agreement with Israel yet. We have had extensive negotiations. We have had a number of problems on the negotiations. I met with Prime Minister Shamir at our office with our VOA people about three or four weeks ago. We have every reason to believe it will now be expedited, and we hope to have a final agreement in the next month or so.

Then, of course, we will request the funds.

RADIO BROADCASTING TO CUBA

Senator LAUTENBERG. The radio broadcasting to Cuba, of course, is a subject of great interest. How many times in the last year has Radio Marti broadcast the number of Cuban casualties in Angola? Do you have any information on that?

Mr. CARLSON. I have some information on that, sir.

Mr. WICK. Go ahead.

Mr. CARLSON. We have carried 117 news items and correspondent reports concerning the war in Angola and the Cuban presence in Angola. Of those, 76 news items and reports were specifically about the Cuban soldiers. Casualty figures were mentioned in approximately 20 of the stories.

The general problem with the reportage there has been a paucity of figures available from the UNITA office here in Washington. There is a particular interest obviously in covering Angola by Radio Marti because Radio Marti has been the only vehicle for information to the Cuban people about a Cuban commitment militarily that is larger, in proportion to the Cuban population, than the U.S. commitment in Viet Nam at its height. So we regularly carry as much news as is available.

Senator LAUTENBERG. What has Radio Marti done to acquire any on-site documentation of the Cuban activities in Angola?

Mr. CARLSON. We have plans now, Senator, to send a correspondent and a news director from Radio Marti, Jay Mallin, into Angola, probably through Zaire, in the next 3 weeks. We were planning to send a correspondent and a news director a couple of weeks ago; the trip was postponed, and now we plan it for sometime in the next month.

Senator LAUTENBERG. Did the State Department have a prohibition on our personnel going into Angola?

Mr. CARLSON. There was a communication from the State Department to USIA requesting that the trip be postponed for a couple of weeks. My understanding is that while the State Department agreed to the trip, it was felt that the timing was not right.

RADIO MARTI USE OF VOA PROGRAMMING

Senator LAUTENBERG. As long as we are discussing Radio Marti, I have a question that Senator Chiles wanted to submit to you, Mr. Wick. Senator Chiles asks, and I quote, "Radio Marti has proven to be an extremely successful vehicle for reaching the Cuban population with programs targeted to that population's needs and interests. Radio Marti's analysis of Cuban demographies, life styles and Cuban radio listening habits tailor its programs to this Cuban audience.

"Radio Marti is reaching that audience. Of 456 recent emigres interviewed, 95 percent listened to Radio Marti, while only 37 percent listened to VOA. It is my belief that this successful mix of programs by Radio Marti should be continued and that increased VOA programming should not be mandated for Radio Marti."

Senator Chiles' question for you is, "Does the U.S. Information Agency plan to alter this mix in programming in any way by requiring that a full complement of VOA programming be presented on Radio Marti's AM frequency?"

Mr. WICK. I cannot answer that either way at the moment. I think what Senator Chiles is referring to is that Senator Pell has raised the question about the current manner of broadcasting by Radio Marti, suggesting an interspersion of 5½ hours of VOA. Radio Marti currently obtains about 30 percent of its current affairs broadcasting materials and 58 percent of its news from VOA.

The question is related to an interpretation of the Radio Broadcasting to Cuba Act, which was passed on October 4, 1983. Under this interpretation of the Act, Radio Marti is supposed to broadcast 5½ hours hours of VOA Spanish broadcasts. This was discussed with Senator Pell the other day. Our Acting General Counsel feels that there is a very strong ambiguity in the Act if one asserts the interpretation that Senator Pell has asserted. However, there are others in the Congress who were privy to the original legislation who disagree with that interpretation.

So we are in a position where Congress will have to tell us what it believes is the correct interpretation. Therefore, until that is rendered, we will be forced to continue broadcasting successfully as we are.

Senator LAUTENBERG. My role here as chairman is to get it on the record, not unfortunately to solve a problem. I do not like that role, but in any event I guess Senator Chiles and Senator Pell, perhaps, can redefine this in a way so that we can get the message across. It is very interesting to hear comments about the response to our efforts to broadcast into Cuba and the Soviet Union. In a meeting that I had with Mr. Scharansky, he gave a very good testimonial to the effectiveness of Radio Free Europe and Radio Liberty. I have also heard testimony about Radio Marti.

Mr. WICK. Further testimony regarding Radio Marti is that Armando Valladares, a poet who was released after 20 years in prison and who wrote a very important book recently, "Against All Hope," has told about the great hope and the great job that Radio Marti is presenting to those people. Also, another great Cuban patriot who has been in the French embassy in Havana as a refugee for some years has said: there will come a time when the current situation in Cuba historically will be measured by what happened before Radio Marti and what happened after Radio Marti. That is paraphrasing his quote.

Senator LAUTENBERG. That is better than your TV version.

Mr. WICK. I might say that you are the first one who has not found it helpful.

Senator LAUTENBERG. I am the only corporate executive serving in the U.S. Senate. It is very interesting that out of 100, I am the only one.

Mr. WICK. That is interesting. I thought you and I would empathize, because I am a corporate executive and I thought presenting these facts would be helpful.

Senator LAUTENBERG. We used to sell it. That is why we do not buy it that way.

[Laughter.]

Mr. WICK. May I introduce to you, sir, the head of Radio Marti, Mr. Ernesto Betancourt. He came here as a representative of Castro during the revolution. He returned in 1959 to Castro's Cuba and immediately became totally disillusioned. Upon the appointment of Guevara to a high office at the Central Bank, he resigned. Since then, he has been working against the present regime in Cuba.

Senator LAUTENBERG. In New Jersey, we have quite a Cuban presence and Cuban-American presence, and I have done radio broadcasts with Mr. Duran. I do not know whether you know him.

Mr. BETANCOURT. Yes.

VOA-WORLDNET FUNDING MIX

Senator LAUTENBERG. And he and I did a broadcast together. His English was more comprehensible than my Spanish.

In the general statement of the justifications where your Agency decries the cuts that were necessary to the 1987 request, it is noted that VOA broadcasts were reduced by an excess of 100 hours weekly and that other VOA reductions will reduce the quality and the depth of VOA broadcasts.

Yet at the same time, we find that on WORLDNET an additional 2 hours a day being added to the European broadcasts and 1 hour to the Latin American broadcasts. It would seem that we are cutting back on the tried and true in favor of the new and glitzy. Now, I did not write this.

What comparative analysis did you do to expand the television at the expense of radio?

Mr. WICK. I am glad you brought that up, sir. VOA, in which we believe very strongly, since 1981 has had a 33 percent increase, or approximately $59 million, in its funding in recognition of the important job that it does. However, you, being from the business world, will appreciate that as newer techniques come in that help you in a competitive world, you certainly do not ignore them and that the tried and true must continue to merit the allocation of resources. This we do as far as VOA is concerned.

However, we do provide a mix of program activities. We have radio, television, personal appearances, scholarships, magazines, any number of things. WORLDNET—and I will present you with results audited by our Inspector General—I think will prove to you dramatically with evidence of how effective it has been in giving us millions of viewer impressions, actually four billion, based upon Nielsen type surveys of repetitive viewing.

With the explanation of our positions in newspapers around the world, as well as that carried directly on television, it is unparalleled in the history of USIA. Why? Because of modern technology.

The enormous impact of television has been seen and validated with the testimony of every major administration figure, as well as those from the private sector that have been on WORLDNET and have seen the publicity. The replication that these broadcasts have received in the

media around the world makes the impact of this television technology very obvious. Television is the primary source of information for most of the young people around the world, not to say others. Therefore, to do our job most effectively, we must utilize this medium.

This is our recommendation as to how we can most effectively spend America's money. Given the constrained resources we have, this is the most judicious program mix.

Senator LAUTENBERG. I am struck by the fairly significant large decrease in, let's say, the video presentation rather than the audio. The increase is substantially large.

Mr. WICK. You mean percentagewise.

Senator LAUTENBERG. Percentagewise, and they begin to approach in absolute terms, the same thing. We are talking about effectiveness, and obviously we want to reach that market.

EFFECTIVENESS OF WORLDNET

Mr. WICK. Let me translate that for you, because how high is up? WORLDNET has been most effective in Europe. We are right now in 96 cable systems. This is a bonus, in addition to everything I have just told you. WORLDNET is now being picked up by 96 cable systems in Western Europe with 5 million homes. We are in 121 hotels in eleven countries with about 25,000 rooms. These are all bonus impacts on telling America's story, which is what we are funded to do.

We have found a similar success now in expanding from 5 days a week in Europe to 5 days a week in Latin America, 1 hour a day. We have experimented with these. That is how we got to where we are.

As we have seen the enormous impact that the technology has given us, the leverage to have a greater permeation of our message, then we have proceeded from there. We want to expand to 2 hours a day in Latin America. Very importantly, this money will also help us go into Africa.

Let me give you an instance of the effectiveness other than statistical effectiveness. Shortly before the Olympic games in Los Angeles, many African nations were in consternation by virtue of having received letters from somewhere in the United States, I think Virginia or Kentucky, signed by the Ku Klux Klan.

The Olympic games were threatened with the possibility that a number of African countries would not come. The Ku Klux Klan suggested that if their athletes came, they would be eradicated, they would be fired at, they would be kidnapped and all these kinds of things.

We arranged a WORLDNET with a number of the African leaders who were in Nigeria. We had Tom Bradley, the black Mayor of Los Angeles, in Los Angeles and Peter Ueberroth, the head of the Olympics, in Los Angeles sitting as close as you and I are. These representatives of these black nations saw that black Mayor of Los Angeles, elected obviously by an overwhelmingly white majority, telling them that that was disinformation that they received. He guaranteed them that their athletes would be safe and would not be subjected to the

kinds of mistreatment they had heard about. He also stressed the great democratic liberties that we enjoy here. Peter Ueberroth addressed their fears more specifically. As a result, there was only one African nation that cancelled its visit, and that was one that was under direct Soviet hegemony.

So in 1988 we want to expand WORLDNET to Africa and also Asia. As a businessman, I am going to be here just a couple more years. When I leave and become a non-government taxpayer again, I would like to think that in my years of government service I had made a contribution to making Government more effective by harnessing the technology that has been made available to us.

We have sometimes abandoned the tried and true. We no longer send our officers overseas by boat; they go by plane. And we no longer use radio telephone for our wireless file; we now use satellites and computers. I would like to provide for the record attestations to WORLDNET's effectiveness by U.S.G. officials and others

[The information follows:]

Summary of International Reaction to

WORLDNET

I. Letters from U.S. Government Officials on WORLDNET:

-- President Reagan, 5-2-86: "The WORLDNET international satellite network...has given America an unprecedented, unqualified capacity to reach the minds and hearts of people around the globe."

-- Secretary of State George Shultz, 4-15-85: "Through EURONET, USIA is better able than ever to carry out its mandate to communicate abroad."

-- Secretary of Defense Caspar Weinberger, 4-9-86: "The WORLDNET system is an excellent way of exchanging information and ideas with journalists and opinion makers around the world on issues of international importance."

-- Former Secretary of the Treasury Donald T. Regan, 3-9-84: "EURONET represents a breakthrough in government use of modern technological developments and the efficient use of time in reaching international audiences."

-- Secretary of Commerce Malcolm Baldrige, 3-1-85: [The WORLDNET program] was extremely useful...the attendent publicity in three countries also served to heighten the awareness of, and interest in, the CBI beyond the audience which usually saw the broadcast itself."

-- U.S. Trade Representative Clayton Yeutter, 11-12-86: "ARNET is a great idea, and I hope it flourishes for many years to come...the coverage was terrific."

-- FCC Chairman Mark Fowler, 7-8-86: "It is interesting and useful to hear first hand the interests of other nations in our actions."

-- AID Administrator M. Peter McPherson, 4-10-84: "The availability of your new satellite capacity...will, I am sure, prove to be a valuable resource to the entire U.S. foreign affairs community."

-- Diana Lady Dougan, Coordinator of International Communications, State Dept: "...during my last visit to Europe, I heard rave reviews from both our embassies and host government officials concerning this innovative effort in public diplomacy."

-- White House Director of Private Sector Initiatives Fred J. Ryan, Jr., 2-19-87: [WORLDNET is] a great vehicle to share our private sector initiatives success stories with our frineds across the seas.

-- U.S. Chief Arms Control Negotiator Max Kampelman: "I like doing WORLDNET because I get instant media reaction."

-- U.S. Arms Control Negotiator Ed Rowny, 2-29-84: "WORLDNET helped me communicate effectively with a large number of European journalists while

being very conservative of my time and efforts. It is a very effective communications link."

-- U.S. Arms Control Negotiator Paul Nitze, 3-14-85: "I know of no more effective way for our policy spokesmen to reach foreign media and opinion leaders in this important effort [arms control] than by timely WORLDNET programs."

-- Director of the Strategic Defense Initiative Organization Lt. Gen. James Abrahamson, 6-17-85: "So much good has resulted from our joint WORLDNET program in May...It was most helpful to me to be able to respond to questions from 13 different journalists in these countries with a minimal investment of time and absolutely no overseas travel."

II. Reactions to WORLDNET from Other Prominent Opinion Leaders

-- Journalist Tad Szulc, 1-7-87: "I think WORLDNET has an extraordinary potential...You and I may differ about politics, but I believe you are performing an extraordinary service for the U.S. in encouraging such openness and candor. Credibility is the most powerful weapon we have going for us, and I am happy to see USIA under you wielding it so effectively."

-- Henry A. Kissinger, 3-2-84: "I am impressed by the WORLDNET television program, and based on my experience, I am enthusiastic about this dramatic new device to reach people abroad in the most effective manner possible."

-- PBS President Bruce Christiansen, 6-14-85: "You have accomplished the extraordinary feat of moving USIA into the video age with your WORLDNET activities."

-- Journalist Marvin Kalb, 5-20-86: "Whenever there is controversial policy, WORLDNET springs into action...So we are certainly trying, as a government, to use technology to get our point of view across and to fight the Soviet point of view. Likewise, they're trying to do the same thing. To the degree that that interchange leads to a greater public understanding and awareness and therefore a more intelligent citizenry, then we've done God's work and we're okay."

-- Former US Ambassador to the UN Jeane Kirkpatrick, 7-22-86: "There is no better way to understand the U.S. than to explain it to people directly."

-- A Senior Official of Britain's Independent Broadcasting Authority, 4-10-85: "Even Rupert Murdoch's Sky Channel with a few hundred thousand viewers in the United Kingdom cannot compare with the potential impact of WORLDNET's reach and availability."

-- Nigerian Minister of Agriculture Lt.Gen. A.K. Akinrinade, 9-17-86: "[WORLDNET is] one of the best things to happen to U.S.-Nigerian relations in a long time."

III. International Media Reaction to WORLDNET

-- A reporter from the British ITN network: "This is exactly what WORLDNET is for, we got the final word, straight from the top, just at the right time."

-- Western World, a Belgian newsletter, editorialized: "In the long run, this communications link-up between Western Europe and the U.S. may prove more important to the Alliance than the 'coupling' of the defense of the two continents by stationing of the American Pershing II and cruise missiles in Europe."

-- In Italy, a commentator on Rome's left of center GR-1 radio: "This immense willingness to participate in debate even from the highest levels [of the U.S. Government]...is the guarantee of public control over political decisions (which is typical) of American democracy."

-- Philippine columnist Teodor Valencia of the Daily Express: "WORLDNET permits world leaders to meet the international press on instant notice to explain earth-shaking world developments...it is a spectacular show."

-- The West German daily Sueddeutsche Zietung: "The fact that the rapidly expanding cable-TV companies in West Europe are using the programs is, in the final analysis, of more importance [than the interest of journalists in participating in interactives]."

-- Indonesia's leading daily paper, Kopas: "The image of America has been enhanced not only because of its position as the initiator and the first class user of the program), but because of its success in spreading its political ideas."

-- The Guardian of London: "EURONET is itself an expression of the importance the U.S. Government places on direct communication with Europeans."

-- The Wall Street Journal, international edition: "...putting American officials directly before European questioners and audiences is bound to increase the understanding of all concerned."

-- Il Tempo, a major daily in Rome: "EURONET allows European public opinion to participate directly in the great decisions of international politics."

-- Asahi Broadcasting Corp. of Japan: "Seeing high-ranking U.S. Government officials illustrates the U.S. Government's requirement to be involved in global issues..."

-- The left-wing Italian daily Manifesto: "One doesn't have to go to Washington to enter into contact with the principal representatives of the Administration."

-- In the U.S., the National Review editorialized in an article on WORLDNET: "Is it any longer possible to control broadcasting in an era of global communications? Good. Let the frontiers fall."

-- Le Monde of Paris: "WORLDNET Starts a Crusade...the Americans, feeling that they are often misunderstood, are determined to revolutionize traditional methods of international diplomacy to provide a better explanation of their policies."

IV. Overseas Audience Reaction to WORLDNET:

-- I am very glad to be able to watch a news programme that gives a global view of the events and the facts of the world; a news programme which goes beyond the borders of a country and gives notice also of events which are not reported by the national news programme.

--Giuseppe Dasara
Latina, Italy

-- I'm grateful to USIA for giving us here in Europe a chance to be part of the American life and news coverage. WORLDNET is a great link between the United States of America and Europe.

--Jukka Porola
Tampere, Finland

-- I suppose one day, British TV will achieve the high standards set by WORLDNET, possibly! But until that day, I will continue to watch American TV when ever possible.

--Andrew Peckett
Swindon, England

-- I watch WORLDNET because the programs stimulate one's general knowledge and provide me with a foreign view on various matters. I think that its news reports are factual and undistorted.

--Joachim Sandstrom
Lund, Sweden

-- We watch WORLDNET regularly. It's very useful for our English lessons and we get a lot of information from the USA first hand.

--Jim & Peter Van de Wege
Schilde, Belgium

-- My wife and I watch America Today after having seen the BBC and ITV morning news and consider it a much more comprehensive programme.

--W.H. Warren
Eastbourne, England

-- I immensely enjoy receiving US news directly. I am profoundly impressed with the ease and knowledge of the programs which are not distorted or unilaterally selected as is the news in our national media.

--Boris M. Andreewitch,
M.D.
Bromma, Sweden

-- I try to watch your daily programs as often as I can. Your reports about life and developments in the USA and in the world are very interesting.

--Richard Losert
Munich, West Germany

-- I like all WORLDNET programming, which gives us up-to-date information

from your country. We in Holland are interested in all that's going on in America. We can read it in our newspapers but then we do not know how much information is really up-to-date.

--Patty van der Meer
Zwijndrecht, Netherlands

-- You are what television will surely be tomorrow, when satellite programmes cover the world.

--Stefano Salomone
Rome, Italy

-- Serious programmes of American perspective have been badly needed in Europe for quite a long time and your WORLDNET service fills that void most admirably.

a musician
--Merk, Luxembourg

-- Your program is a vital link with the U.S.

Roland Fischer
Spain

-- WORLDNET is for me the only way to have a direct glance at your country.

Raymond Petit
Liege, Belgium

V . On WORLDNET in general:

-- USIS Brussels: "WORLDNET has already proven itself to be an essential tool, vital to the overall public diplomacy which supports the conduct of our foreign policy."

-- USIS Caracas: "WORLDNET has provided valuable direct exchange of ideas between prominent Venezuelan personalities and USG policy-makers."

-- USIS Copenhagen: "WORLDNET has enabled us to do things that were not feasible previously, both in terms of reaching individual leading opinion makers and broadening our mass audience."

-- USIS The Hague: "WORLDNET, after meeting with considerable initial skepticism among the highly suspicious Dutch press corps, is now accepted as a legitimate source of information and has contributed to the USG's over-all ability to communicate with Dutch journalists."

-- USIS Stockholm: "WORLDNET is one of this mission's most valuavle communication tools..."

-- USIS Bonn: "The introduction of WORLDNET has made modern communications technology the handmaiden of public diplomacy...and brought Germans a clearer, brighter picture of the United States and its policies."

VI . On Specific WORLDNET Programs:

-- USIS Amman: "...the program did exactly what WORLDNET is designed to do, attract high-level participants to interact with leading experts in the U.S. nd achieve wide TV and press coverage..."

-- USIS Sydney: "...the program added confirmation to the U.S. Administration's already declared commitment to the U.S.-Australian alliance."

-- USIS Oslo: "Lt.Gen. James Abrahamson's WORLDNET program on the Strategic Defense Initiative drew a high-level, attentive audience of 57 drawn from government, Parliament, political parties, labour, media, youth groups, defense think tanks, and academia...the enthusiasm expressed here today augers well for future interactives of this type."

-- USIS Madagascar: "WORLDNET is an excellent way to get U.S. policy and information on the air in Madagascar...local participation gives the entire presentation far more credibility than a pre-recorded program."

-- USIS Rome: "100 people packed the American library's conference room...numerous dignitaries were in attendence including a Supreme Court Justice, two Foreign Ministry Under Secretaries, a Member of Parliament, and the Dean of Rome's Space Engineering School..."

-- USIS Beijing: "The special election night coverage was an extraordinary opportunity to reach Chinese audiences with the powerful message of democracy in action."

-- USIS Geneva: "Ambassador Nitze's [WORLDNET] program on arms control...projected the image of a U.S. negotiating team dedicated to finding a way out of the nuclear morass."

-- USIS Madagascar: "The program showed, post-election, Americans of both parties and all backgrounds close ranks behind the system, if not the man himself. This was a valuable lesson where constructive opposition is not always the rule."

-- USIS Niamey: "Nigerian President Kountche told the post that McPherson 'had provided answers that Africa needed to hear.'"

-- USIS Dakar: "WORLDNET's broadcast of the Reagan-Mondale debate served to dramatize the vast potential of the WORLDNET concept by presenting a world class media event in French version immediately after it took place."

-- USIS Manama: [WORLDNET broadcast of the Presidential debate was an] opportunity for Bahrainis to experience this high-point in our democratic practice through satellite technology rather than reading about it way after the fact..."

-- USIS San Jose: "Costa Rican Foreign Minister Carlos Jose Gutierrez commented that direct reception in Spanish of the President's address allowed the audience to more clearly understand the current and future orientation of U.S. foreign policy."

-- USIS Nairobi: "...the broadcast demonstrated the open nature of our society, our support for the free flow of information, and our interest in Africa."

-- USIS Tel Aviv: "the program [WORLDNET on the artificial heart program] was a resounding technical and programmatic triumph...which convincingly demonstrated the capability of WORLDNET to attract large, professional, and enthusiastic audiences..."

MEASURE OF TECHNOLOGY

Senator LAUTENBERG. That is a good step forward. I will not argue with that.

Mr. WICK. I just want to give you the rationale.

Senator LAUTENBERG. The fact is that technology is measured in several ways: its general-effectiveness and its cost-effectiveness. Technology implies that we can reduce the human interface. In fact, we talked about the reduction in personnel as being an imperative. I am not denying that it is. But there has been an exchange for something else, and that is the technology and the ability to reach the marketplace.

To continue with the questions submitted by the Chairman and presented by the deputy——

Mr. WICK. If I might interrupt you, sir. The cost effectiveness is one of the principal reasons for our recommendations.

Senator LAUTENBERG. Without prolonging the discussion, the audio message is a very easy one, I think, to transmit. The video message requires a whole different interfacing system. Believe me, I would love to see this budget, these appropriations, expand substantially. You perform a significant and essential service.

But you said it yourself: we are competing with all kinds of things. I happen to be chairman of the Transportation Subcommittee for Appropriations now. Certainly that cannot substitute for VOA. But I will tell you that for the folks in New Jersey and the areas I care about, there is some competition there.

Mr. WICK. May I make one observation? We do not view television as a competitor of VOA. They are complementary. The greatest aspect of VOA's effectiveness is its ability to go beyond the Iron Curtain. It touches areas where television is not yet able to get, although it will ultimately.

But inherent with VOA broadcasting are large capital investments. For example, our Israel location, in conjunction with the Board for International Broadcasting, will run around $300 million. Our Tangier facility under construction will be about $200 million. This is inherent in how you deliver short-wave broadcasting.

And not to in any way compare this with VOA, but you can turn off WORLDNET tomorrow at practically no cost. The cost we have is a one-time capital expenditure of approximately $27,000 for installation of a satellite dish at each of our embassies. Once they are up, we have these ongoing satellite transmissions.

Senator LAUTENBERG. Which satellite do you use?

Mr. WICK. We are using the INTELSAT, Atlantic satellite, and for Western Europe it comes down in Bercenay, near Paris, and then we use the European Community satellite there. We have gotten tremendously cost-effective rates. Our deal with them is approximately a 90-percent discount from the commercial rate. We did that through competitive bidding.

So if you want to turn off WORLDNET, you can turn it off tomorrow. And the only cost will be that one-time $27,000-per-dish cost.

Senator LAUTENBERG. Do you ever consider a friendly takeover bid from CBS?

[Laughter.]

Mr. WICK. I did, but I do not like independent counsels.

REDUCTION IN VOA BROADCAST HOURS

Senator LAUTENBERG. In your statement, Mr. Wick, you say that due to the 1987 budget cuts, the VOA broadcasting schedule was reduced by 130½ hours, and that is the largest single cut since the 1950s. I should note that it was originally contemplated that the broadcast schedule would be reduced by 113 hours. This has now been revised to 130½.

Elsewhere, we read that 130 million adults around the globe listen to VOA at least once weekly and the broadcast amounts to only a few cents per listener reception.

In view of these, the Chairman would have thought that the administration would have at least requested sufficient funds to restore those 130½ hours. But to the contrary, the budget merely maintained the original reduced weekly broadcasting schedule of 1,098¾ hours.

Since you are not asking for the hours to be restored, is it suggested that we were right? And if so, why the comment about the largest single cut since the 1950s?

Mr. WICK. I think the reason for the comment is just to put in context what the resultant problems are. You and your colleagues have to make a decision on any number of cuts. I am sure that the reason for the hearings and your various analyses are to have as accurate an assessment as possible as to how much damage, if at all, is inherent in any of the cuts proposed by an agency to conform with the reduced budget resources allocated to it.

Now, our budget submission to Congress followed a lengthy consultation with our Office of Management and Budget, the National Security Council and the State Department and other Executive Branch agencies. For VOA we initially proposed that the 1988 budget restore broadcast hours to the pre-1987 level. Following an initial allowance that would have meant further cuts in VOA and elsewhere, we appealed.

The joint administration decision was that given the enormous deficit problem, with which we are all faced, VOA should continue with the 1987 level of broadcast hours throughout 1988. Given the intolerable deficit burden, I certainly had no way of appealing beyond that kind of reasoning.

Senator LAUTENBERG. So on the substance of the issue, you think that the cut is excessive in your role as part of the Administration's effort to reduce the deficit.

Mr. WICK. Yes, as an advocate from our narrow part of the spectrum. But the administration has the constitutional job of looking at all aspects of the Federal budget. Therefore, we go along with it, and we have no alternative, by the way.

VOA MODERNIZATION

Senator LAUTENBERG. The request includes a total of $90 million to continue the VOA's technical upgrading and expansion program. How many of the modernization projects have been started? And how do the actual costs and completion dates compare with the estimates?

Mr. WICK. Mr. Carlson?

Mr. CARLSON. Let me go through the projects that have been negotiated, if you would like, Senator. We have carryover as well, which I think you are aware of.

As of September 30, 1986, we had $142.1 million in carryover which, combined with appropriated funds of $54 million for fiscal year 1987, provides us with about $196 million available for new construction this year.

We plan to use those resources this year for procurement of the radio frequency subsystem, that is, the transmitters and the equipment connected with the transmitters, as well as acquisition of commercial power systems for the relay sites and architectural engineering facilities. That is for four sites: Botswana, Thailand, Morocco and Sri Lanka, all of which are sites for which we have negotiated agreements.

We anticipate that we are going to obligate all of that money in 1987. I underline that, because we had carryover from other years. Approximately $10 million has been obligated from October 1, 1986 through January 31, 1987. Over $146 million has already been committed to the procurements that I have mentioned. If you would like, I will go through the specifics.

SOVIET UNION AND EAST EUROPEAN PROGRAM

Senator LAUTENBERG. I will tell you what I think you should do here. Since time does not allow us to go into the specifics on each project, we will submit these further VOA questions to you in writing, and we ask that you respond for the record.

LETTER FROM GARY A. MARCO

[CLERK'S NOTE: Subsequent to the hearing, the subcommittee received a letter from Gary A. Marco, National Federation of Federal Employees, with regard to VOA modernization. By direction of the chairman, the letter has been printed in the record at this point.]

NATIONAL FEDERATION OF FEDERAL EMPLOYEES
SERVING FEDERAL EMPLOYEES AND THE NATION...SINCE 1917

Local_____

1987 APR 28 PM 3 18

April 22, 1987

The Honorable Ernest F. Hollings
Chairman,
Subcommittee on Commerce, State,
and the Judiciary
United States Senate
Washington, DC. 20510

Dear Mr. Chairman:

Enclosed is an article from the April 27th edition of The Federal Times concerning the VOA modernization effort. This article refers to documents which we have tried to obtain through the Freedom of Information Act process without success up to this point.

We believe the article and the documentation used to sustain it demonstrate that the Union's concerns are well justified. In fact, the activity on the part of the Inspector General's office up to this point does not address modernization issues in their entirety, but only a portion of those issues. We have presented additional issues which remain to be investigated by the USIA Office of the Inspector General. While waiting for the Inspector General's investigation to proceed, we have addressed these additional issues in a Statement for the Record in conjunction with hearings held by the International Operations Subcommittee of the House Foreign Affairs Committee, a copy of which was provided to Mr. Warren Kane of your staff.

Agency officials claim that the Inspector General's investigation, the various articles in the press and the Union's concerns regarding the modernization effort are unfounded or inaccurate. These officials claim that the Agency hired its own outside consultant to review the modernization effort and that this consultant found the modernization effort to be proceeding smoothly. In our view, this is a specious claim. Too many individuals with daily contact with the modernization effort contend otherwise.

In general, Mr. Chairman, it is our view that the overall situation at VOA continues to deteriorate. Agency officials do not appear to be capable of maintaining Agency broadcast operations in an era of fiscal austerity. It is expected that the near future will see additional reductions in broadcast hours, possible elimination of some language services, and the furloughing of Agency employees. In effect, as these actions come to pass, they demonstrate that Agency officials cannot effectively manage the Voice of America without causing serious disruption of its broadcast operations and its employees.

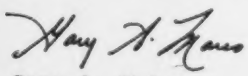
We recognize that the Congress has many significant issues before it, some of greater magnitude and consequence than the matter of the problems at the Voice of America. However, Mr. Chairman, we sincerely request that attention be given to the problems at the Voice of America at the earliest possible opportunity; and we

again ask that a GAO investigation be undertaken to identify and determine the extent and depth of the problems at VOA, with the idea of reorganizing and revitalizing the Agency, and preventing any further deterioration of its broadcast operations.

We are prepared to offer any assistance which might be helpful in resolving any of the problems described herein.

In the National and Public Interest, I remain

Respectfully yours,



Gary A. Marco
President, NFFE Local 1418
101 Skyhill Road
201
Alexandria, VA. 22314

VOA Modernization Unorganized, IG Says

By Leslie Aun

Despite assertions from Voice of America officials that the agency's $1.3 billion modernization plan is on track, documents dating to April 1986 show the inspector general's office has been highly critical of the project.

In a series of memos between the IG office and top VOA officials, obtained by *Federal Times*, the agency was warned that after three years of work on the project, delays and problems in several key areas gave VOA no chance of completing the project within the five years given by the Reagan administration.

"Our survey of VOA's Modernization Program has developed information which indicates that the engineering approach VOA is using will not meet the time requirement mandated by the National Security Council," wrote Inspector General Anthony J. Gabriel in an internal memorandum to VOA Administrator Richard Carlson April 25, 1986.

The IG office also expressed concern that the agency's system for acquiring and implementing equipment was "more costly and time-consuming than necessary."

In a May 21, 1986, memo to Morton S. Smith, VOA deputy director for modernization, the IG office warned that, because of acquisition problems, less than half of the project's $1.3 billion budget had been obligated.

Many programs as a result would be delayed, among them nine new shortwave relay stations, which would not become operational before the end of 1991.

The modernization project, which began in 1984, was supposed to be completed by 1989, a time limit imposed by the National Security Council.

The administration had wanted the entire project to be finished before the president left office in January 1989, because the modernization of VOA was regarded by the NSC as "an important and inexpensive means of achieving national security policy objectives." Consequently, the administration had given the modernization program "high priority."

But by spring of 1986, VOA had yet even to define what the agency needs were in terms of equipment performance, the IG memos said, and had spent too much money and time studying the modernization.

"By the end of FY '85, VOA has spent about $30 million on 'Systems Analysis and Development.' This has consisted mainly of contracted studies to determine functional and system performance requirements for new and existing relay stations," the memo said. "Other technical studies, such as those for worldwide operations and control, will not be completed until the 1990s."

VOA chief Richard Carlson says unions leaders have tried to discredit the project because they fear modernization would lead to fewer jobs.

Many of the completed studies proved unnecessary or did not yield desired results, the memorandum said, because often VOA did not wait for the results before making major decisions, such as where to locate new stations or whether to use certain transmitters to increase signal strength.

The IG statements were never made public because they were written as "internal memorandum," and were thus exempt from Freedom of Information Act requests made by the local chapter of National Federation of Federal Employees, which represents VOA engineers. The union local has been highly critical of the modernization.

Gary Marco, local chapter president, has said large chunks of money and time have been wasted on correcting equipment deficiencies and coping with other delays.

In a recent interview with *Federal Times*, Carlson said union leaders were attempting to discredit the project because they feared the modernization effort would lead to fewer jobs.

But the IG memoranda show that the union was not the only group concerned about problems with modernization.

The memos indicate that members of the Radio Engineering Advisory Committee, the primary advisory group to VOA's modernization, were critical of the project and had "alerted VOA to concerns they have with the system design/acquisition approach VOA is using."

REAC said there was not adequate integration between projects, and little consideration of advance technology. REAC advisers also expressed concern to "VOA engineers that the major elements of the modernization program were not sufficiently coordinated."

Although VOA was made aware of these concerns, the IG memo said "there is little evidence of any corrective action."

VOA's master plan for the modernization was also criticized by the Office of Management and Budget for being too optimistic, not allowing for problems that could delay the project.

A study conducted by OMB, and cited by the IG memorandum, concluded that VOA's management plan for modernization "has not included alternative courses of action that could be followed when delays are encountered."

Although OMB understood that it took more time than VOA had anticipated to negotiate agreements with foreign countries, OMB said, "Delays of this kind are not unusual and should have been anticipated."

According to the memo, OMB warned that, if VOA "does not soon demonstrate much better progress in achieving the objectives of its modernization program," the pressures of the Gramm-Rudman-Hollings anti-deficit law could jeopardize further funding of the program.

The IG also concluded that the project had violated OMB acquisition procedures by failing to develop a "Mission Need Statement," and by not designating a program manager to coordinate the entire acquisition process "to achieve program objectives in an economical effective and efficient manner."

The memos also reveal that top VOA officials did not take kindly to the criticism.

In a memo dated June 11, 1986, Smith called the criticism "unwarranted" and told the IG office that it had used "outworn and previously discredited arguments" in its criticisms of the modernization.

"The IG memorandum fails badly to distinguish between the basis for the early budget estimates and the basis for actual network and stations design," Smith said.

The agency also accused the IG of using "quotes out of context," overlooking "substantial documentation supporting the program which OIG ostensibly sought to study," and underestimating "the impact of international relations on a program which has a strong political component and is not solely a construction effort."

In connection with the $18.7 million request for Soviet Union and Eastern European programs, shown on page 10-3 of your justification, we find that the 1987 reduction resulted in the loss of two American and three foreign national employees. I assume we did not lose the employees but that you reduced the force.

Mr. WICK. That is right.

Senator LAUTENBERG. The description ends with this statement: "This is particularly regrettable at a time when we ought to be seizing opportunities to expand programs in areas of greatest Soviet influence rather than reducing that potential."

Mr. Wick, who is the statement aimed at, you or us? I note that the funds requested for 1988 merely maintain the program level and status.

Mr. WICK. It is not aimed at anybody. We are charged with being as credible as possible in delineating the impact of the 1987 budget reductions.

Are you taking exception to the word "regrettable"?

Senator LAUTENBERG. Do you mean it when you say it?

Mr. WICK. We get emotional when we say it. We are a people business; we are not essentially a hardware business. And we have a lot of committed people. Directors come and go, and political appointees come and go, some faster than others. These are conscientious people, and these are very serious concerns for them.

As we collate from their authoritative observations dealing with these things every day, we present them to you. If you feel that there is some hyperbole that does not belong, for that I apologize.

Mr. SILVERMAN. Senator Lautenberg, in the course of the Agency's deliberation on allocating the cuts, as difficult as it was, we tried to favor the field. In other words, to cut as little as possible from our field posts. And collectively, they took a smaller percentage of cut than our domestic organizations did. But still, in that area of the world where we have relatively small staffs, even that small cut was painful and was so expressed.

EXPANDED PROGRAM PROPOSAL

Senator LAUTENBERG. The people in your organization, Soviet and Eastern European specialists, did they propose an expanded program to grab the opportunities that they think were missing?

Mr. WICK. Yes. What we have been doing for, I guess, almost 2 years now, even prior to Gramm-Rudman-Hollings, during an era where we have been getting increased budget allocations based upon the recognition of the effectiveness of what we do in the competition with the Soviet disinformation effort, we have been doing an ongoing analysis of every single aspect of the Agency to assess the relative priority and effectiveness of all programs.

When Gramm-Rudman-Hollings came along, we were much better prepared than we might have been in this kind of an analysis.

So the various recommendations of the many individual subgroups of the Agency have been considered by a Resource Management Committee which represents all major USIA elements.

Senator LAUTENBERG. So the opportunities to gain something significant are agreed upon. The mission is one that you would salute.

Mr. WICK. Yes. But then, again, as you suggested, do we provide that resource and cut the Voice of America further? Or do we do something else?

Senator LAUTENBERG. Those are decisions you have to make within your Agency.

Mr. WICK. That is what we try to do. But still, we want to give you the rationale so you feel comfortable with how we arrived at these decisions.

Senator LAUTENBERG. Absolutely. Senator Hollings and I both sit on the Budget Committee as well as Appropriations Committee, and we decide what is important. And the advocacy that various of the agencies and organizations bring to us is a significant factor in our appraisal of our responsibilities. I have accused Secretaries of joining OMB as opposed to being a serious proponent of the projects that they were responsible for.

And I would like it, along the way, if some of those responsible for these presentations, the management of these organizations, said, "Look, by God, we need this service; we need this message; it is important to us."

I agree with that. Heck, I would rather shoot words anytime.

Mr. WICK. Senator, I do not think there has been a budget since we have been in office where we have not had appeals to OMB. And I think almost all of them have been successful to some degree.

Senator LAUTENBERG. We have a little bit of a logistics problem here. I have a meeting with the Secretary of State. And though I find your subject interesting, I must take advantage of the opportunity to sit with him.

SUBMITTED QUESTIONS

Therefore, I think we will best serve what we have to do here if we excuse USIA and your colleagues, Mr. Wick. And you understand that the record will be kept open, that there will be questions submitted to you.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

VOICE OF AMERICA

Question. How does the additional 17 1/2 hours cut for 1987 impact your estimates for 1988?

Answer. Postponements in enacting FY 1987 funding levels delayed our ability to determine the exact initial airtime reductions necessary to reach our FY 1987 allotment total. Implementation of those reductions in a constrained budget climate and hiring freeze situation forced subsequent resource allocation decisions: to sustain salary and expense support for the Modernization program, priority of our limited resources was given to the filling of engineering rather than foreign language broadcasting positions needed to sustain 17 1/2 broadcasting hours. Savings from the 17 1/2 additional hours will provide salary and expense funds for those critical engineers in FY 1988.

Question. The reprogramming notice of February 27 says that the VOA news bureau in Hong Kong and Munich have been closed. That is fine, but why do you still maintain an office in Houston? What has been there to report from Houston with the shutdown of the shuttle flights and the downturn in the oil business?

Answer. We have decided to keep the Houston Bureau operating for three principal reasons. One is that it would be more expensive this fiscal year to close the bureau than to retain it. Bringing the correspondent home would cost $20,000. Keeping the bureau open will cost us $12,000-$15,000. Furthermore, had we closed the bureau, we would have had to spend several thousand dollars to send engineers to Houston to dismantle studio equipment set up only five months earlier.

A second reason for retaining Houston is that NASA shuttle missions are to resume in 1988. It is far more cost effective for us to cover those with a correspondent and bureau in place than to send reportorial and technical staff to Houston for extended periods each time there is a shuttle mission. To re-open Houston would cost a minimum of $40,000.

Third, the Houston bureau covers Texas, Louisiana, Oklahoma, Arkansas, New Mexico, and Colcrado. It has the role of providing breaking news but also reporting economic, political, cultural and social trends from the American southwest. Every major newsgathering organization has a regional bureau in Houston, and VOA--with its responsibility to reflect America in all its regional diversity must do the same. Houston is a major center for reportage about events along the international border with Mexico, where accurate VOA news about such sensitive issues as immigration and drug trafficking is essential. Finally, there are many university communities in the Houston area to be mined for scientific, agricultural, medical, artistic, and linguistic programming.

Question. The reprogramming says that the revised broadcasting schedule includes the substitution of one hour of Cantonese for one hour of Mandarin in the China schedule. Why does it cost an extra $100,000 to broadcast in Cantonese?

Answer. VOA has scaled down its schedule for Cantonese, and now plans to begin broadcasting a half an hour daily in that language beginning May 2. The cost will be $30,000 in this fiscal year. In the Chinese Branch, VOA has two Cantonese-speaking broadcasters, far below the number required

to maintain a half an hour daily of quality international broadcasting. It will be necessary, therefore, to hire some outside talent to supplement the staff for purposes of maintaining a seven-day-a-week program. That is how the $30,000 will be used.

Original estimates identified $100,000 as the additional resource requirement necessary to support the Cantonese initiative. However, subsequently, the estimate was reduced to $60,000 which would have provided adequate talent support for a one hour daily broadcast. From there, VOA reduced the broadcast initiative to one-half hour daily with a concomitant reduction of the talent funding to $30,000. The $70,000 difference did not have to be made up through allocations from other scarce resources.

Question. While there is no increase in the broadcast schedule, there is an increase of $14,104,751 for VOA, including $440,000 for coverage of 1988 special events. These events include the summer Olympics in Seoul, Korea.

A. Are you boycotting the Winter Olympics to be staged by our closest ally in Calgary, Canada?

B. Why is it necessary for VOA to cover foreign major events like the Olympics and The World Cup soccer championships? Aren't these events well covered by the media around the world?

Answer. We will cover the Calgary Olympics. VOA's coverage in 1988 includes both the winter and summer Olympics. We will send a team of reporters and technicians to Calgary to provide the kind of in-depth on-scene reportage and sound in English and in languages which is unavailable from other sources--except competing international broadcasters such as the BBC, Radio France International, and Radio Moscow. The amount requested for special events coverage in FY 1988 also will enable VOA to adequately report the 1988 American political process, including the primaries, both national party conventions, Presidential debates, and Election Night.
In many areas of the world, audiences hunger for firsthand information about sporting events--and the Olympics and World Cup competitions are the two premiere sporting events for our listeners. In some regions, other media provide extensive reportage. But in areas of information denial, audiences frequently get only a filtered account of events because of ideologically-inspired boycotts or distorted coverage which emphasize only the national successes of the target country. In most regions of the world, reportage is behind VOA's in terms of timeliness and completeness.

In areas such as Africa and Latin America, VOA field services and language reportage are the sole sources of on-scene coverage of major sporting events. Moreover, VOA teams provide much more than merely results. They interview dozens of athletes in their own languages, a service that news agencies cannot match. In Latin America alone, more than 2,000 radio stations regularly depend on VOA for such reporting in-depth. This has contributed greatly to the growth of audiences for VOA direct broadcasts, as well.

RADIO CONSTRUCTION

The fiscal year 1988 request includes a total of $90 million to continue the Voice of America's technical upgrade and expansion program.

Question. How many of the modernization projects have been

started? How do the actual cost and completion dates compare with the estimates? If none of the projects have been completed, which ones are nearing completion and do their costs and dates compare with the estimates? Please provide a status of all projects.

Answer. Work has been started on five new projects: Botswana, Caribbean/Central America, Morocco, Sri Lanka, and Thailand. Progress has been made in West Germany with a lease agreement with Deutsche Bundespost, and new shortwave transmitters have been installed and put into operation in the Greenville Relay Station (four 500kW) and in the Delano Relay Station (four 250kW). The following is a brief description of the project status in the five new projects:

Morocco

1985* Cost estimate $ 174.4 mil
1987** Cost estimate $ 215.9 mil
1985 Estimated completion date 1990
1987 Estimated completion date 1991
Up to 10 500 kW shortwave transmitters broadcasting a stronger signal to Eastern Europe, North Africa and West Africa. Site preparations are underway with work on utilities being planned.

Notes: * 1985 cost estimates are from USIA's Congressional Estimates for FY-1986, dated January 1, 1985, and are figured in 1983 constant dollars.

**1987 cost estimates are from USIA's Congressional Estimates for FY-1988, dated January 1, 1987. They are calculated in 1985 constant dollars and reflect the effects of inflation since the original estimates (1983 dollars). They also incorporate additional expenses for such items as land lease payments up to the start of broadcasting, direct costs of government-to-government agreements, provision of augmented physical security, and more accurate cost estimates based on engineering studies completed after the 1985 approximations.

Sri Lanka

1985 Cost estimate $ 94.9 mil
1987 Cost estimate $ 122.7 mil
1985 Estimated completion date 1990
1987 Estimated completion date 1992
Up to six 500 kW shortwave transmitters, broadcasting to central Asia, South Asia, the Middle East, the Soviet Union, East Africa, and East Asia. A lease has been concluded and ground tests and site preparations have begun.

Thailand

1985 Cost estimate $ 99.1 mil
1987 Cost estimate $ 122.7 mil
1985 Estimated completion date 1990
1987 Estimated completion date 1991
Up to six 500 kW shortwave transmitters, broadcasting to the Soviet Union and southeast, south, and central Asia. Site preparation is underway.

Botswana

1985 Cost estimate $ 37.7 mil (refurbishment)
1987 Cost estimate $ 65.5 mil (add new site construction)

1985 Estimated completion date 1992
1987 Estimated completion date 1991
Up to six high-powered shortwave and two medium wave transmitters, to broadcast to southern, eastern, and central Africa. The site lease has been signed and land surveys/test have begun.

Carribean/Central America

1985 Cost estimate $ 45.7 mil
1987 Cost estimate $ 54.0 mil
1985 Estimated completion date 1988
1987 Estimated completion date 1989

Costa Rica - One 50 kW medium wave transmitter is now broadcasting to northern Costa Rica in Spanish with one 5 kW repeater in San Jose. The signal covers the border area between Costa Rica and Nicaragua. Permanent transmitter to be installed 1988.
Antigua - One 100 kW medium wave transmitter to broadcast as far south as St. Vincent in the Lesser Antilles. Preliminary site work is to begin shortly.
Belize - Two 50 kW medium wave transmitters broadcasting to portions of Central America, later to be replaced by permanent 100 kW transmitters. Temporary facilities are operating and sending a good signal into Honduras, Nicaragua, and Guatemala.
Grenada - One 100 kW medium wave transmitter broadcasting to the Lesser Antilles and northern South America. Negotiations are underway.
Honduras - Two 100 kW medium wave transmitters broadcasting to Central America. Negotiations are pending.

Three other sites are in the process of negotiation:

East Asia

1985 Cost estimate $ 98.1 mil
1987 Cost estimate $ 115.8 mil
1985 Estimated completion date 1991
1987 Estimated completion date 5 yrs after agreement
Up to six 500 kW shortwave transmitters broadcasting to eastern and central Soviet Union and East Asia. Negotiations are continuing.

Greece

1987 Cost estimate $ 215.2 mil
1987 Estimated completion date 6 yrs after agreement
Up to fourteen 500 kW shortwave transmitters broadcasting to Eastern Europe, the Soviet Union, Africa, and the Middle EAst. Negotiations resumed in February 1987 and agreement was reached at the end of the month. The text of an agreement is being reviewed for the for the time by each government, with signatures expected within a few months.

Israel

1987 Cost estimate $ 137.7 mil
1987 Estimated completion date 4 yrs after agreement
Six 500kW shortwave transmitters broadcasting to Eastern and Central Europe and the southern Soviet Union, eastern Africa, and Southwest Asia. A basic agreement has been initialed, and detailed implementing agreements are being

negotiated. (This is a joint project with the Board for International Broadcasting, which will have ten transmitters at the same site.)

An additional site is planned for Puerto Rico, but work is delayed because of budgetary considerations.

Puerto Rico

1985 Cost estimate $ 150.0 mil
1987 Cost estimate $ 161.0 mil
1985 Estimated completion date 1990
1987 Estimated completion date 1994
Up to nine 500 kW shortwave transmitters reaching South America; environmental studies are underway.

For the new lease arrangement in West Germany:

West Germany

1987 Cost estimate $ 72.8 mil
1987 Estimated completion date 1989
Four new high-powered shortwave transmitters and four new antennas will be installed at Wertachtel for broadcasts to the Soviet Union, eastern Europe, the Middle East, and central Asia. The first 500 kW transmitter is to become available in 1987.

Work has been initiated on six of the major new construction projects. The installation of four new 500 kW shortwave transmitters in the Greenville Station has been completed under budget. The Morocco, Sri Lanka, Botswana, Thailand, and Caribbean projects are essentially on schedule and within budget; however, because of the FY-1988 budgetary limitations it will be necessary to:

-- Defer work on the Puerto Rico project and the Philippine and Liberia refurbishment projects until FY-1994.

-- Defer work (other than work already funded and in progress) on the Delano and Greenville refurbishment projects until FY-1994.

-- Submit a supplemental appropriation request for the Israel, Greece, and New Far East Projects when the host country agreements are consummated. These projects will be delayed by the time it takes to obtain a supplemental appropriation.

Question. How much of the funds provided to date have been used to purchase major equipment items such as transmitters?

Answer. VOA has had numerous equipment purchases for its Modernization Program for equipment and other purposes ranging in cost from several thousand to several million dollars. For the purpose of answering this question, "major" equipment procurements are defined as those equipment items costing over $500,000. A listing of these items plus pertinent procurement data on each item is provided in table form in response to a subsequent question. The total of the funds provided to date to purchase these equipment items is $47,374,467.

Question. For the major items, have any been purchased and placed in storage awaiting site preparation? For those items purchased but not in use, has the warranty period expired or have you taken steps to cover equipment when it is actually placed into use? What is the reason for purchasing equipment far in advance of actual need?

Answer. No major items have been purchased and placed in storage since the modernization program was initiated. Should it be necessary to place such equipment in storage, steps will be taken to have the warranty period become effective at the time the equipment is placed in service. Equipment is not purchased far in advance of actual need. Equipment is purchased only far enough in advance to allow for the time required for manufacturing, assembly, and testing of the equipment prior to shipment to the field.

Question. For the major items purchased would you provide for the record a listing showing the equipment, date purchased, cost, the date placed in use or date expected to be placed in use, and the manufacturer. Were the purchases made through competitive bidding? To what extent were American contractors used?

Answer. As stated above, for the purpose of answering this question, "major" equipment items are those costing over $500,000. Pertinent information on these major equipment items as requested in the above question is provided in the following table:

TABLE OF MAJOR EQUIPMENT PURCHASES *
("MAJOR" = Costing Over $500,000)

EQUIPMENT ITEM	DATE PURCHASED	TOTAL COST	DATE PLACED IN USE OR EXPECTED DATE	MANUFACTURER	COMPETITIVE BIDDING	AMERICAN CONTRACTOR
500 kW Transmitters at Greenville RS	1/31/85	$2,426,926	1986	BBC Brown Boveri, Inc	Yes	No (Switzerland)
		$2,118,005	1986	Continental Electronics, Inc.	Yes	Yes
		$2,222,498	1986	Marconi Electronics, Inc.	Yes	No (UK)
		$2,676,428	1986	AEG Telefunken	Yes	No (FRG)
MW Antennas for Caribbean (Costa Rica and Belize)	10/1/84	$6,719,300	1985 & 1986	TCI, Inc.	Yes	Yes
50 kW Transportable Transmitters	12/17/84	$2,291,775	1986 (Three In-Use) One in Storage	Continental Electronics, Inc.	Yes	Yes
100 kW Transmitters	9/25/86	$4,811,093	**1989 & 1990	Harris Corporation	Yes	Yes
820 kW Engine Generators	8/1/85	$639,048	1986	Alban Engine Power Co.	Yes	Yes
Satellite Interconnect System	5/30/86	$10,071,096	**1987-1991	COMSAT Corporation	Yes	Yes
Telephone Switch Systems (Tasks 1-2)	9/26/86	$519,302 (Options for $5.5 million)	1987-1991	Fluor Corporation	Yes	Yes
SNAP Computer System	7/1/85	$5,394,495	1986	Xerox Corporation	Yes	Yes
VOA/E Computer System	9/29/84	$827,501	1987	Digital Equipment Corporation	Yes	Yes
19 Studio Renovation Broadcasting Equipment	3/24/87	$6,630,000	1988	Grunley-Walsh Construction Company	Yes	USA/Japanese/ Switzerland (Brand-Name or Equal Products)
		$47,374,467				

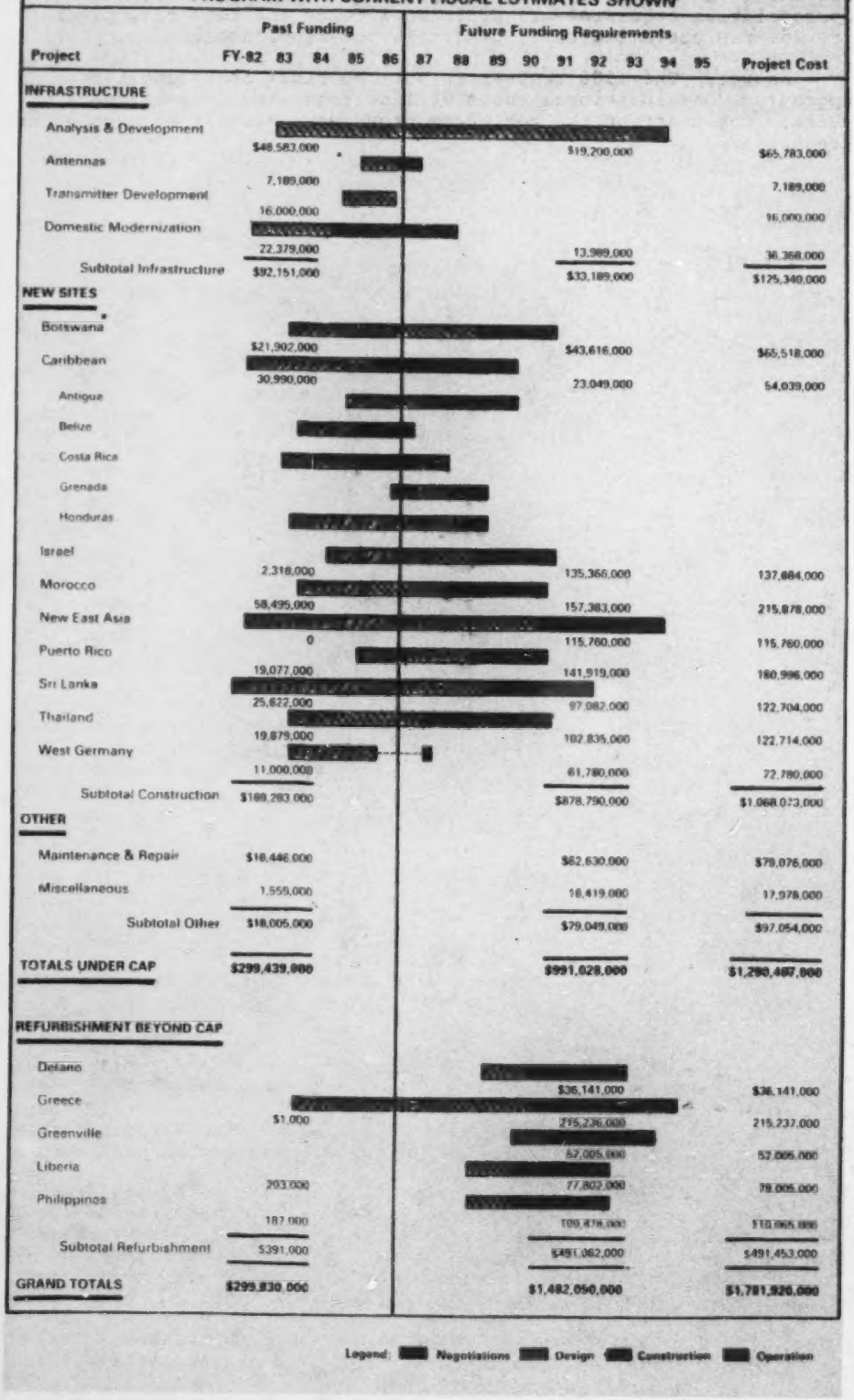
* NOTE: This table is a listing of "major" equipment items funded from the Radio Construction appropriation for the VOA Modernization Program.

** Although contract award was in FY 1986, these equipment items are in the process of being assembled/tested before placement. The timing of actual delivery and placement is commensurate with expected "in use" date.

Question. Is the 1988 request the final installment in upgrading VOA? Or, will additional funds be requested in subsequent appropriation requests? If additional funds are required, please provide the estimated cost, projects, and timeframes.

Answer. The 1988 request is not the final installment in upgrading VOA; additional funds will be requested in subsequent years. The chart on the next page provides a summary of each of the projects:

APPROXIMATE CRITICAL PATH OF MAJOR PROJECT GROUPS IN THE VOA MODERNIZATION PROGRAM WITH CURRENT FISCAL ESTIMATES SHOWN



Question. You have had a continuing change in leadership of VOA. What steps are being taken to assure that the VOA senior management and engineering staff are effectively monitoring the numerous projects to ensure compliance with contract terms, etc.? How much time is being devoted by the Inspector General's staff to monitoring and evaluating the VOA modernization program?

Answer. Senior Management in the Office of Engineering and Technical Operations, which has direct responsibility for implementation of the modernization program, has experienced little change. The current Director of this office has been in his position for over three years. The Deputy Directors were among the first personnel employed when the engineering organization was formed. An automated system for integrated cost/schedule control is used to monitor compliance with contract terms.

There is close liaison between the Office of Engineering and Technical Operations and the Inspector General's staff. The IG's staff has performed several detailed surveys of various aspects of the VOA Modernization Program that required considerable amounts of time. These efforts have been commensurate with the number of inquiries regarding the program and the staff available to perform this work.

Question. Have you obtained long-term agreements in countries where you are now constructing new or modernizing facilities? For these locations would you address the following: What are the terms (lease, ownership, other) for the relay station sites? Were any concessions, i.e., cash payments, economic, or military assistance, made to obtain these sites? What assurance do you have that the facilities can be completed and operated for a reasonable period before expiration of U.S. rights to the sites?

Answer. Long-term agreements ranging from 20 to 50 years measured from the time of first operational broadcast have been secured with all eight countries with whom we have concluded negotiations to date. Since in every case the clock begins to run only after modernization is completed, the agreements themselves provide the assurance of adequate operational time before expiration. Provisions for renewal of the agreements after expiration are also included.

The terms are primarily leases, with either annual or lump sum "up-front" payments. Exceptions are Thailand, where no rental is charged, Costa Rica, where we were able to purchase a site, and Germany, which will provide us with modernized services to VOA specifications for a set annual tariff in lieu of constructing and operating our own site.

In addition to land rents, compensation to the host countries has taken variously the form of cash grants, training on site or in the U.S., new broadcasting equipment, turn-over of old VOA equipment already in country and/or host country use of time on VOA transmitters. No economic or military assistance has been involved in any agreement.

Question. On page 6 of the Radio Construction request, you state the $15.1 million is for construction of medium wave facilities in the Caribbean and Central America area. Are these facilities to be used solely for VOA broadcasts? If not, who are the other users? Can other U.S. government agencies or organizations sponsored by these agencies use these or any other VOA facilities?

Answer. VOA's medium wave facilities in the Caribbean and Central America are used solely by VOA with the one exception of Costa Rica. The agreement between USIA and the Costa Rican

Association of Information and Culture (Association) provides for a time-share broadcasting schedule. USIA is entitled to use the broadcasting system for up to 60% of the time and the Association (Radio Costa Rica) is entitled to use the system for the remaining 40% of the time. There are no other users of these facilities.

VOICE OF AMERICA MODERNIZATION PROGRAM

A. CRITICAL FACTORS IN SELECTING CONTRACTORS

Question. The thirteen modernization projects planned by the VOA will require the installation of sophisticated equipment in remote locations around the world. Do you share my belief that, in selecting contractors to complete these exotic projects, special regard must be accorded three factors:

(1) Highest technical competence;

(2) Ability to control costs; and

(3) Preference for U.S. firms as prime contractors (over foreign owned or controlled firms) capable of performing skillfully on-site?

Answer. Throughout the contractor selection process, VOA rigidly adheres to the requirements of the Federal Acquisition Regulation (FAR), which is intended to promote the full and open Competition that will ensure the highest technical competence and capability at the least cost. Equipment contracts are also awarded under the terms of the Trade Agreements Act of 1979, which requires proposals to be evaluated without regard for the restrictions of either the Buy American Act or the Balance of Payments Program. At the present time, none of the statutes under which we operate either direct us or authorize us to give preference to U.S.firms.

B. SRI LANKA PROJECT

I believe the first major modernization is scheduled for Sri Lanka. Since this is a prototype project -- located in a remote, potentially dangerous area -- your practices in procuring contracts for the work in Sri Lanka should demonstrate the standards to be applied when funding requests for succeeding projects elsewhere are considered.

Question. Please describe briefly the architect/engineering procurement process which VOA has followed for the Sri Lanka project. I assume you are satisfied with the competing contractors' technical competence. I am particularly interested in hearing how this process has taken account of the need to control costs for this project. Also, I would like to hear whether VOA has explored ways to emphasize the involvement of U.S. firms.

Answer. For the selection of the A/E firm to design the Sri Lanka relay station facility, VOA is following a process that is in accordance with the Brooks Act, as implemented by the Federal Acquisition Regulation (FAR) Subpart 36.6. The following are among the steps in the selection process:

-- Review of A/E qualification data received in response to the procurement announcement in the Commerce Business Daily (CBD).

-- Development of a list of A/E firms fully qualified for the relay station design by a preselection board.

-- Presentations by the A/E firm finalists to a selection board comprised of professional engineers and architects.

-- Ranking of the A/E firms by the selection board.

-- Negotiation of design fee with the top-ranked A/E firm.

-- Award of an A/E contract.

C. OTHER PROJECTS WHERE VOA IS RESPONSIBLE FOR PROCUREMENT

Question. Please provide the same information for any other projects in the VOA modernization program for which VOA is responsible for procurement.

Answer. All awards for contractor services in support of VOA's Modernization program follow the selection processes as outlined above. To ensure that the highest technical competence and contractor capability at the least cost are acquired for each contract, VOA adheres to requirements contained in the Federal Acquisition Regulation (FAR). All architect/engineer contracts are awarded in accordance with the Brooks Act as implemented by Subpart 36.6 of the FAR.

D. PROJECTS WHERE CORPS OF ENGINEERS IS RESPONSIBLE FOR PROCUREMENT

I also understand that the Corps of Engineers, not VOA, is responsible for architect/engineering procurement for certain of the projects in the modernization program: for example, a project recently initiated for Thailand. How will the VOA ensure that the three critical factors we just discussed are properly observed in the procurement process by the Corps of Engineers?

Question. Would you provide me with a full report on all projects where the Corps of Engineers will select among offerors, and include a description of how technical competence, cost effectiveness, and U.S. citizenship are being considered as controlling factors in this procurement process?

Answer. The Corps of Engineers will be awarding architect/engineer contracts for Tangier, Sri Lanka, Botswana, and Bangkok projects in FY 1987. As with USIA, the COE awards all contracts in accordance with the Brooks Act as implemented by Subpart 36.6 of the Federal Acquisition Regulation (FAR). The COE reviews all data received in response to the procurement announcement in the Commerce Business Daily; the preselection board, which consists of VOA architects and engineers having a vested interest in the project, as well as COE architects and engineers, develops a list of firms fully qualified for relay station design. Following presentations from the A/E finalists, the selection board prepares a ranking of qualified A/E firms from which the top ranked firm is selected. A fee proposal is then submitted to the selection board and subsequently negotiated between the A/E firm, the COE, and VOA Architects and Engineers. In order to ensure technical competence and cost effectiveness, VOA architects and engineers participate in all aforementioned COE contract award processes for VOA. The utilization of VOA architects/engineers to oversee each project up to and including contract award is VOA's primary "controlling factor" in the procurement process.

BUY AMERICAN

Question. Do you know of any offset arrangements with the European Governments involving the VOA expansion program, as was the case in 1979 when the 12 transmitters were purchased from Switzerland?

Answer. There are no known offset arrangements with European Governments involving the VOA expansion program. There were also no

such arrangements with European governments during VOA's December 1978 purchase of nine (not 12) 250 kW transmitters from BBC Brown Boveri, Inc.

Question. Do you feel that any correlation exists between the apparent VOA European preference and the known fact that the Europeans would dominate the world market for the type of equipment required for the VOA expansion program for the next 10 years at the total detriment of the U.S. Industry? Please explain?

Answer. VOA has no European preference or correlative implications in any of its procurements, and specifically the major equipment items included in its Modernization Program. VOA's intent is to procure required equipment that best meets its technical performance needs at least cost to the Government in full accordance with all applicable laws, regulations, and U.S. Government policies.

VOA Modernization Program procurements have been and are made with full and open competition in strict accordance with the Federal Acquisition Regulation (FAR) and procurement laws, including the Buy American Act and Trade Agreements Act of 1979, as applicable. As is the case with most electronics industry equipment, and particularly such specialized equipment as broadcast transmitters, the industry is international in composition and, as such, vigorously competes on an international scale for sharing the world market. Not knowing specific world market requirements for the next ten years, VOA can not speculate on how this market will be shared among all the competing participants. It will ensure fair and equitable treatment of all competing firms.

Question. How does VOA plan to control the spare and replacement parts costs for the 20 year lifetime of the stations when they essentially have no control over these prices as would be the case with U.S. spare parts buys where FAR Regulations and Most Favorite Customer Clause apply? Please explain your thoughts and plans?

Answer. Plans are for all spare and replacement parts to be centrally procured in accordance with the provisions of the Federal Acquisition Regulation (FAR). VOA has developed a logistics support Provisioning Procedures Standard for use in all major subsystem procurements. This Standard is included as Section J.20 of the current Request for Proposals (RFP) for the Radio Frequency (RF) Subsystem.

The Provisioning Procedures Standard requires that contractors provide certain data on spare and replacement parts, such as identification of National Stock Numbers, identification of true manufacturers on prime vendors, failure rates and unit costs. Such data are intended to provide for the acquisition of follow-on parts either through existing Government channels or open market competitive procurement wherever possible.

The Statement of Work for the RF Subsystem (Section C, paragraph 2.2.16.6) also requires that all components or their equivalents be available through established suppliers, or that they may be fabricated with minimum lead time by more than one vendor. These requirements are further emphasized in Section L, Instructions, Conditions and Notices to Offeror, paragraph 7.5.

Evaluation of the logistics support aspects of the proposals will include analysis of the extent to which the design of the system may reduce the multiple competitive sources (Section M, paragraph 2.3.1.d), and the extent to which the design of the proposed RF Subsystem's future reliability and maintainability is enhanced by the availability of American manufactured components (Section M, paragraph 2.3.1.e).

Question. Does the U.S. transmitter company have the same opportunity to bid to the foreign equivalent to VOA without severe restrictions or complete shutout. Does the Trade Act of 1979 apply in this one direction approach?

Answer. It is assumed that the term "foreign equivalent to VOA" refers to other international broadcasters such as the BBC, Deutsche Welle, etc. whose countries (i.e., Canada, Germany, France, Israel, Italy, Japan, Sweden, Switzerland, United Kingdon, etc.) are participants to the Agreement on Government Procurement implemented by the Trade Agreements Act of 1979 or other similar legislation such as the Caribbean Basin Economic Recovery Act or U.S.-Israel Free Trade Area Implementation Act of 1985. For these countries, U.S. firms have the same opportunity to bid without severe restrictions or complete shutout. The provisions of the Trade Agreements Act of 1979 with the particiating countries are applicable to such bidding.

Question. The last VOA transmitter buy was in 1979 when you bought 12 250kW from Switzerland, is that right even though there was an American bidder whose price and technical proposal were equal or better?

Answer. The contract for the last major shortwave transmitter buy was awarded in December 1978. Nine, not twelve, transmitters were purchased from a Swiss firm whose price was $600,000 lower than that of the U.S. bidder. In addition, the U.S. firm was non-responsive in the sense that it could not accept requirements to provide for liquidated damages, a provision all of the other three bidders accepted. There also was some serious debate over the technical acceptability of the U.S. firm's bid.

RIAS TV

Mr. Wick, last year a major USIA interest was the $12,000,000 to establish a television capability for Radio in the American Sector (RIAS) in West Berlin. However, that project is surprisingly not mentioned in your opening statement nor in the general statement of the Radio Construction program.

Question. The reprogramming notice of February 27th indicates that $200,000 is to be used for a technical survey to determine the best location for RIAS-TV as well as to have architectual and engineering design support. Does this indicate that problems have arisen with this project?

Answer. At this time there are no insurmountable obstacles in our path. A project the size and complexity of building and equipping a television station is not to be undertaken lightly. Before construction funds are obligated we require detailed analysis of possible site locations and examination of the proposed program formats and logistics of producing these programs technically. A&E funding is usually 6% of an estimated construction project cost and must be undertaken well before bids are let for physical construction.

The provision in the 1987 Continuing Resolution that delays expenditure of the funds for RIAS-TV until October 1, 1987 seriously hampers our conduct of this project since it prevents progress payments being made for work completed which is the normal practice. Presently we are proceeding along two paths. The first is to establish RIAS TV in a temporary facility as soon as possible. The second is to design and build the permanent facility and effect a smooth transition from temporary to permanent operation.

Question. We realize that the Radio Construction appropriation is not available for expenditure until October 1, 1987, but when will the $12,000,000 be obligated?

Answer. Since the $12,000,000 cannot be disbursed until the beginning of FY 1988, USIA TV plans to begin obligation of funds within the next 2 months and continue obligating funds until the permanent facility has been completed.

SOVIET AND EAST EUROPEAN PROGRAMS

Several years ago a finding was made that the United States had to beef up its capability for advanced research and training in Soviet and Eastern European studies. The State Department is requesting $5,000,000 for that effort in 1988. Meanwhile, the USIA Academic Exchanges in this area stay at the same level of 1986.

Question. Instead of creating a new program at State, why can't we redirect the Academic Exchange to the Soviet and Eastern European countries? For instance, nearly 45% of the Academic Exchanges are with Western European countries; is there anything in Western Europe left to study?

Answer. The purpose of the Soviet-East European Research and Training Act of 1983 is to expand knowledge in this country of the Soviet Union and Eastern European countries through graduate training, advanced research, public dissemination of research data, collaboration among government and private specialists, and on-site training and research. The Fulbright exchange programs that USIA conducts with these countries involve a two-way exchange of American and Eastern European lecturers, research scholars, and graduate students. The training of American area specialists is only one of the objectives of Fulbright exchanges.

The number of Fulbright exchanges every year with each Eastern European country and the USSR is fixed by official bilateral agreements. As a general rule, the United States seeks the expansion of exchanges with these countries, while the Eastern European governments try to limit them. It would serve no purpose to allocate greater resources to academic exchanges with these countries if there are no opportunities to expand exchanges beyond levels currently specified in bilateral exchange agreements.

The program levels by geographic area, as presented in the Congressional budget request, include non-U.S. Government funds such as contributions by foreign governments to the Fulbright exchange program. They therefore overstate the proportion of U.S. Government resources devoted to Western Europe because in Western Europe the levels of foreign government contributions are higher. Moreover, the practice in Western Europe of giving significant numbers of partial grants causes the total amount of grantees to appear disproportionately high. For appropriated funds alone, the area breakdown for USIA's academic exchange programs is shown on the following chart:

	FY 1986 Actual		FY 1987 Estimate		FY 1988 Estimate		Increase or Decrease (-)	
	No. of Grants	Funds	No. of Grants	Funds	No. of Grants	Funds	No. of Grants	Funds
East Asia & Pacific	706	$11,737,273	706	$12,640,011	706	$12,941,681	0	$301,670
Africa	535	11,176,109	535	11,922,391	565	13,056,886	30	1,134,495
North Africa, Near East & South Asia	545	10,140,050	545	10,691,803	545	10,994,211	0	302,408
American Republics	1,187	28,602,024	996	26,632,660	1,060	29,759,942	64	3,127,282
West Europe	2,501	12,725,638	2,501	13,417,538	2,501	14,058,718	0	641,180
Soviet Union & East Europe	321	9,637,823	321	9,400,866	321	10,360,980	0	960,114
Worldwide Program	0	5,433,399	0	5,264,000	0	5,804,557	0	540,557
Total	5,795	$89,452,316	5,604	$89,969,269	5,698	$96,976,975	94	$7,007,706

Even after more than forty years of academic exchanges with the countries of Western Europe, there remains widespread misunderstanding between Western Europeans and Americans. Recent political events reveal an unfortunate degree of anti-Americanism in Western Europe and an inclination among significant numbers of Europeans to view the policies and actions of the United States and the USSR as equally inimical to Western European interests and equally threatening to world peace. These attitudes are most prevalent among young people who have not shared with their parents the World War II experience of close cooperation and friendship with the United States. We believe that the need for better understanding between Western Europeans and Americans remains great and that academic exchanges are a particularly effective way to promote such understanding among younger generations.

SOLIDARITY

Mr. Wick, whenever anyone says anything negative about the National Endowment for Democracy, immediately the cry goes up that NED is vital to Solidarity. Last October we received a letter from Jerzy Milewski, the director of the Solidarity's Temporary Coordinating Commission in Brussels. The letter says that solidarity receives $300,000 in NED funding from the Free Trade Union Institute, and that they get another $100,000 from trade unions worldwide. Solidarity developed a $1,000,000 budget for aid from abroad in 1987 that will be printed in the record at this point:

BIURO KOORDYNACYJNE NSZZ «SOLIDARNOŚĆ» ZA GRANICĄ
COORDINATING OFFICE ABROAD OF NSZZ «SOLIDARNOŚĆ»
BUREAU DE COORDINATION À L'ETRANGER DE NSZZ «SOLIDARNOŚĆ»
9 avenue de la Joyeuse Entrée, 1040 Bruxelles, Belgique

October 30, 1986

Mr. Warren W. Kane
Staff Member
U.S. Senate Committee on
Appropriations
S.D. 152
Washington, D.C. 20510

Dear Mr. Kane,

I appreciate the opportunity which Senator Holling's response to STUDIUM regarding the National Endowment for Democracy afforded me in meeting with you regarding NSZZ "Solidarnosc" financial needs.

As we discussed in our meeting, Solidarity receives NED funding in the amount of $300,000 annually through the intermediary of the AFL-CIO Free Trade Union Institute. We are truly grateful for this, the largest contribution. World wide, we are able to collect another $100,000 annually from trade union and other donors, plus some in-kind services, such as office space for the Coordinating Office in Brussels. The cash donations represent merely 40% of our projected needs annually. To date, the NSZZ "Solidarnosc" request of one million dollars annually has failed to be met despite the fact that in the free world there is hardly anyone who does not declare himself an ardent supporter of Solidarity as the representative of the Polish nation's social and political aspirations for human, civil and trade union rights.

Clearly there is a wide gap between word and action, between declarations of support and actual funding. While reasons may be found for this situation, one which cannot be cited is the disappearance of Solidarity as a determining political and social factor in Poland. NSZZ "Solidarnosc" continues to exist, its organizational structures continue to function and to adjust to a changing situation six years after its founding and nearly five years after its banning by the authorities of Poland.

The executive leadership of Solidarity, with its president, Lech Walesa, and the Temporary Coordinating Commission (the TKK) would be enormously heartened if the U.S. Congress would consider the funding situation of NSZZ "Solidarnosc" as one which should be improved by one or a combination of several methods. These may include, but not be limited to, additional NED funding from its discretionary funds, yet untapped (and yet undiscovered) other sources, or direct allocation in the Congressional budget. Any one, or a combination, of grantors who would give NSZZ "Solidarnosc" the wherewithall to continue its struggle for freedom and democracy in Poland would be acceptable and welcome as long as their donations were to be consonant with the TKK guidelines concerning aid from abroad which I left with you.

Thank you again for meeting with me and Mrs. Wasiutynski.

Sincerely yours,

Jerzy Milewski
Director

THE NSZZ "SOLIDARNOŚĆ" BUDGET
FOR AID FROM ABROAD IN 1987
(in thousands US$)

1. AID FUND

1.1.	financial , medical and legal aid on a regular basis to political prisoners, to Union activists in hiding, to repressed persons and the families thereof	90
1.2.	reserves	10
	sub-total	100

2. ORGANIZATIONAL FUND

2.1.	the national leadership	
2.1.1.	the central body	30
2.1.2.	the secretariat	20
2.2.	the regional structures	
2.2.1.	Dolnoslaski (Wroclaw)	30
2.2.2.	Slasko-dabrowski (Katowice)	30
2.2.3.	Malopolska (Krakow)	30
2.2.4.	Gdansk	30
2.2.5.	Mazowsze (Warsaw)	30
2.2.6.	Ziema Lodzka (Lodz)	20
2.2.7.	Pomorze Zachodnie (Szczecin)	20
2.2.8.	Wielkopolska (Poznan)	20
2.2.9.	Torunsko-bydgoski (Torun)	20
2.2.10.	Lublin	20
	sub-total	300

3. FUND FOR PURCHASING EQUIPMENT ABROAD

3.1.	printing equipment	150
3.2.	spare parts and printing materials	60
3.3.	communication and computer equipment	30
3.4.	other equipment	10
	sub-total	250

4. THE BRUSSELS OFFICE FUND 150

5. SUPPORT FUND

5.1.	support for independent organizations, groups and individuals not associated with NSZZ "Solidarność"	100
5.2.	support for independent press and publishing houses not associated with NSZZ "Solidarność"	100
	sub-total	200

Total 1000

October 4, 1986

Temporary Coordinating Commission (TKK)
of NSZZ "Solidarność"

GUIDELINES CONCERNING FINANCIAL AID FROM ABROAD FOR NSZZ "SOLIDARNOŚĆ"

1. The Temporary Coordinating Commission (TKK) of NSZZ "Solidarność" - the Union's executive leadership in hiding - handles requests for aid from abroad on behalf of NSZZ "Solidarność". The TKK asks that aid for "Solidarność" be given openly and without political or organizational conditions attached.

2. Donations for NSZZ "Solidarność" should be placed at the disposition of the national leadership of "Solidarność". The TKK of NSZZ "Solidarność" is responsible for the efficient disbursement of foreign aid for the Union. The TKK asks that donors avoid, whenever possible, stipulating specific allocation of their donations. This will assist us in minimizing chaotic allocation of funds granted on occasion by foreign donors for various areas of "Solidarność" activity. Additionally, the use of the funds could be more effective if the inflow of money were more stable and sufficient to meet the most urgent needs of "Solidarność".

3. The TKK of NSZZ "Solidarność" is in a position to provide donors with only general reports on the disbursement of funds obtained from abroad. Detailed reports pose an unacceptable threat to our organization and a personal risk for "Solidarność" activists. The TKK asks donors to accept the filing of general reports only.

4. Foreign donations to NSZZ "Solidarność" should be made to the Coordinating Office Abroad of NSZZ "Solidarność" headquartered in Brussels. The Office is responsible for transmitting foreign aid to Poland in the form of cash and equipment according to TKK instructions. The Office keeps accounts on a regular basis for the Union's leadership in Poland; its books are also periodically reviewed by TKK representatives. In addition, the Office's accounts are checked and certified by a joint ICFTU-WCL commission.

5. Transfers of cash and equipment to Poland for NSZZ "Solidarność" structures made within the framework of direct agreements with those structures and foreign partners, should be carried out in agreement with the Coordinating Office Abroad of NSZZ "Solidarność".

6. The TKK requests that the Executives of the ICFTU, the WCL, the AFL-CIO and of other national union organizations not allow collections of larger funds and/or the organization of large-scale fund-raising for "Solidarność" by individuals or organizations not authorized by the TKK or the "Solidarność" Brussels Office. All hitherto existing authorizations are void; any future authorizations will be verified by the Brussels Office in accordance with the TKK resolution of 15 April 1986 regarding the Office.

7. The TKK of NSZZ "Solidarność" supports efforts by other independent groups in Poland to obtain foreign assistance. The TKK, however, adamantly opposes the use of the name SOLIDARNOŚĆ or reference to "Solidarność" achievements by the organizers of such assistance.

On behalf of NSZZ "Solidarność", the TKK would like to express its sincere thanks to all its foreign supporters and sympathisers for their voluntary and unconditional help. Their support eases the task of continuing "Solidarność" activities after the Union's delegalization. It is also the best possible expression of political support for our Union and of their faith in our future victory. It helps "Solidarność" activists to take on the risk of repression for union activities. When help is carried out in accordance with the guidelines given above, it strengthens the Union's unity and the authority of the national leadership of NSZZ "Solidarność". The TKK requests that the Executives of the ICFTU, the WCL, the AFL-CIO and of other donors undertake organizational measures to enable the realization of the financial and equipment policy of the national leadership of NSZZ "Solidarność".

October 4, 1986

Temporary Coordinating Commission (TKK)
of NSZZ "Solidarność"

BIURO KOORDYNACYJNE NSZZ «SOLIDARNOŚĆ» ZA GRANICA
COORDINATING OFFICE ABROAD OF NSZZ «SOLIDARNOŚĆ»
BUREAU DE COORDINATION À L'ETRANGER DE NSZZ «SOLIDARNOŚĆ»
9 avenue de la Joyeuse Entrée, 1040 Bruxelles, Belgique

RESOLUTION OF THE TEMPORARY COORDINATING COMMISSION (TKK) OF NSZZ "SOLIDARNOSC" ON THE COORDINATING OFFICE ABROAD OF NSZZ "SOLIDARNOSC"

1. NSZZ "Solidarnosc" is a trade union and at the same time part of the independent social movement in Poland. As a trade union it is a member of the international democratic trade union movement and participates in its activities.

2. NSZZ "Solidarnosc" is striving to establish the principles of trade union pluralism in Poland and to establish respect for the human rights defined by the international agreements ratified by the authorities of Poland, specifically the Conventions of the International Labour Organisation and the Provisions of the Helsinki Final Act of the CSCE.

3. NSZZ "Solidarnosc" is prepared to maintain relations with all organisations and institutions that respect its goals and activities.

4. The Coordinating Office Abroad of NSZZ "Solidarnosc", headquartered in Brussels, Belgium, was established by decision of the TKK on 1 July 1982 to coordinate cooperation between "Solidarnosc" and the international trade union movement. The Office represents NSZZ "Solidarnosc" in the international trade union movement, and maintains regular cooperation with trade unions and their international organizations. Specifically, it acts as intermediary in contacts between the leadership of NSZZ "Solidarnosc" in Poland and the authorities of foreign trade union organisations. Only the Office or persons and institutions authorized by the director of the Office possess the prerogative to carry out this work.

5. The Office is accredited with the International Confederation of Free Trade Unions and the World Confederation of Labour. These Confederations and their affiliates finance the Office as part of their material assistance for NSZZ "Solidarnosc".

6. One of the Office's responsibilities is to mediate cooperation between NSZZ "Solidarnosc" structures in Poland and foreign trade unions. The Temporary Coordinating Commission in Poland oversees the negotiation of bilateral cooperation agreements, while the Office is empowered to act on its behalf abroad. The Office maintains documentation of these agreements. If contacts above and beyond the existing agreements are established with trade unions, representatives of particular NSZZ "Solidarnosc" structures engaging in such contacts while abroad are obliged to consult their activities with the Office.

7. NSZZ "Solidarnosc" activists travelling abroad can officially represent NSZZ "Solidarnosc" only to the extent to which they are authorised to do so by the Temporary Coordinating Commission or by the Union's president, Lech Walesa. The Office will be informed of any authorisation. The director of the Office may disavow any person usurping the role of "Solidarnosc" spokesperson.

8. The Office may, without additional authorisation, represent NSZZ "Solidarnosc" abroad in matters concerning all non-trade union organizations, institutions and private persons. It may also undertake any initiatives aimed at securing from the same unconditional material and political support for the Union.

9. The Office conducts financial activities and transmits material assistance to NSZZ "Solidarnosc" according to guide-lines established by the Temporary Coordinating Commission. The Office is the sole Union representation abroad authorised to issue confirmations of donations obtained by NSZZ "Solidarnosc". This provision does not apply to other agreements signed by the Temporary Coordinating Commission that are binding.

April 15, 1986

The Coordinating Office was established by a decision of the Temporary Coordinating Commission (TKK) of NSZZ «Solidarnosc» as the Union's representation abroad, headquartered in Brussels. It is recognized by the International Confederation of Free Trade Unions and the World Confederation of Labour, which jointly audit its financial activity.

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Solidarité Pologne
Compte n° 02114034

Question. Was this request for $1,000,000 discussed with USIA and NED, and to what extent is it being funded in 1987?

Answer. To the best of my knowledge, Solidarity has not been in contact with anyone at USIA regarding their 1987 $1,000,000 budget for aid from abroad.

I have been informed by Carl Gershman that some parts of the FY 1987 proposal from the Coordinating Office abroad of NSZZ "Solidarnosc" were discussed with NED and others with the Free Trade Union Institute, the AFL-CIO related institute that administers labor's NED funds. The proposal, received by the Free Trade Union Institute (FTUI), is broad and includes requests for basic union support, (which has been provided in FY 1984 by FTUI, the Endowment's core grantee in the field of labor) as well as for independent organizations, press and publishing houses.

Solidarity representatives indicated that the proposed budget represented their optimal annual needs, but they did not suggest that it be funded units entirety by NED. No formal proposal for funding was made. In their meeting with NED on February 19, a NED officer pointed out that item 1, the Aid Fund and item 5, the Support Fund of the Solidarity proposal, have been covered by NED discretionary grants in FY 1987 and in previous years, as outlined below. In recent months the Brussels office of Solidarity has also indicated that it welcomes this support by NED to the independent movement in Poland.

In FY 1987 the NED has funded the following activities in support of democracy in Poland:

-- to the Free Trade Union Institute (AFL-CIO) for assistance to the Polish independent trade union movement, its Western representatives and to organizations documenting its activities, $451,000.

-- to the Polish American Congress Charitable Foundation for assistance to political activists in Poland and their families, support for the independent committees in Poland for education, culture and science, the Polish Helsinki Watch Committee and awards to individuals in Poland in recognition of their defense of human rights and independent culture, $225,000.

-- to the Institute for Democracy in Eastern Europe in New York City for assistance to the Consortium of Independent Publishing Houses in Poland and support to other independent publishing and human rights groups in Poland, $116,000.

-- to the Solidarity Endowment of Washington, D.C. for support to the independent press in Poland, $42,000.

-- to Freedom House of New York City, for support to ANEKS, the Polish language publishing house in London, England which distributes its publications in Poland, and to the Uncensored Poland New Bulletin of London, England, $55,000.

-- This funding totals $889,000.

In addition, FY 1987 grants are being considered for support of the independent video movement in Poland ($50,000), and a Polish language literary journal published in Paris and distributed in Poland ($12,000).

If these two grants are approved by the NED Board, the grant total

for FY 1987 in support of democratic activities in Poland will be $951,000.

Question. What are the plans for assisting Solidarity in FY 1988?

Answer. Subject to the level of funding appropriated by the Congress in FY 1988, NED plans to continue its support for Solidarity and other democratic activities in Poland at the approximate level of FY 1986, or at an increased level if additional funding is available.

INTERNATIONAL STUDENT EXCHANGE PROGRAM

The International Student Exchange Program (ISEP) is a network of 93 American and 90 foreign institutions of higher education in 33 countries which has facilitated the exchange of 2,500 students since 1979, half from the U.S. and half from abroad. For the 87-88 academic year, over 700 exchanges are in process and involve the following public institutions in South Carolina that are members of the ISEP network: The College of Charleston, Clemson University, Coastal Carolina College -- USC, the University of South Carolina, Columbia.

Under this innovative program, which is funded primarily by the participants themselves, students pay their own institutions customary fees for tuition, room and board. Then, the American students and the foreign students simply change places. Students pay their own transportation costs which participating institutions contribute the manpower to perform on-campus administration tasks.

Funding for the administration of the program has been provided by the United States Information Agency under authority of the Fulbright-Hays Act of 1961. For the period July 1986-June 1987, the USIA contribution was $382,651, which was a 20% reduction from the previous year. This contribution, which now averages about $540 per student, leverages private resources ranging from $5,000 to $18,000 per exchange.

Question. Is it not a policy of this Administration and your Agency to offer educational opportunities and an introduction to American values to as many students from other lands as possible? Given the need to deal with our budget deficit, are you seeking the most cost-effective way to accomplish this?

Answer. We are of course seeking cost-effective means to accomplish our objectives. At the same time, our exchange programs serve larger foreign policy interests as well. With almost 350,000 foreign students studying in the United States currently, and perhaps 100,000 American students studying abroad, our Fulbright programs have focussed -- successfully, we think -- on well-targetted exchanges and well-selected individuals. In many cases it is more effective to concentrate on placing the right individuals in the right place, and ensuring a good experience than on emphasizing volume.

Question. We understand that the International Student Exchange Program (ISEP) meets both of these objectives and that nevertheless your Agency is reducing its support for the program by 25% a year. How do you justify this?

Answer. The Agency first began supporting ISEP in 1979 as a three-year pilot project. The idea was that with some initial support, the number of exchanges and the number of participating institutions would grow, and the program would thus become self-supporting. ISEP has, in fact, increased the number of exchanges over the years and has attracted new member institutions.

After the three-year pilot period, the Agency continued support of ISEP on a year-to-year basis. Last year, in our review of our academic exchange activities, we determined that our initial support of ISEP had served its purpose, and, while we have every hope that ISEP will achieve its objective of being self-supporting, Agency funding should be phased out over a five year period in favor of other traditional exchange activities. We informed ISEP of this decision, and they submitted a proposal last year that incorporated a 20% reduction. In line with this decision, we propose a similar reduction this year.

Question. We understand that the cost to the government of each exchange in this system is less than one-fifteenth of the total program cost. Is this not the kind of cost sharing we both hope to achieve?

Answer. We, too, are impressed with the level of cost-sharing. The majority of the costs of the exchange are borne by the participating students through the payment of tuition in the United States, and by the host institutions abroad where tuition is generally lower and state support greater than in the U.S. We would point out that many institutions have study abroad and exchange programs and fund the administration of those programs either centrally or from fees charged to the participating students. The USIA grant of $382,651 for FY 1986 represented 52% of ISEP's operating budget.

Question. We understand that ISEP with USIA encouragement has expanded exchanges with the Third World. If this is true, why is the Agency weakening the program as a whole through severe cuts in funding for two years in a row?

Answer. One of the objectives we had hoped to achieve in funding ISEP as a pilot project was to encourage more voluntary student exchanges with countries other than those traditionally served by most exchange programs. While ISEP has been somewhat successful in this effort, the numbers are still not what we would have hoped. Nevertheless, we recognize ISEP's efforts and understand the difficulties involved. We hope that ISEP will continue to try to increase these numbers, an objective that ISEP has indicated that it shares.

Question. Doesn't this system of barter exchange of education have a favorable effect on our balance of payments?

Answer. It is not clear what effect it has on the balance of payments. If two students participate independently in an "exchange," the American student would generally pay the local tuition to the foreign institution, often a quite low figure, while the foreign student here generally would pay full out-of-state tuition. If living expenses were included, however, it is difficult to determine what the net effect would be.

Question. Is not the ISEP network an example of our government facilitating private sector achievement of our national goals and needs, such as helping our young people develop foreign language skills and international experience for future careers?

Answer. That, of course, is why we initially funded ISEP. We think that ISEP has been successful in generating interest in international study abroad among some institutions that otherwise might not have set up such a program for their students. ISEP has relieved those institutions of many of the administrative burdens associated with establishing study abroad programs. It is our hope that the institutions see the value of the ISEP program to them and their students, and that participating universities will replace the funding previously provided by USIA.

WORLD-WIDE MISSION COSTS

On page 11-9 of your request you discuss the overseas security expenses. The justification notes that the fiscal year 1986 State Security Supplemental provides USIA with $18 million.

Question. Do you have the technical capabilities required to survey, design, procure and supervise security construction?

Answer. As demonstrated by our use of FY-85/86 Supplemental funds, USIA has a wide range of resources available to successfully design, implement and complete overseas security projects. By utilizing Agency and Department of State security standards and guidelines, USIA's security officers have the expertise and capability to survey, design and implement the relatively small scale upgrades and rehabilitations required at most USIS short term leased facilities. For these projects, installation supervision is handled by senior security engineers obtained through the Department's Engineering Services Contract. Procurement for technical equipment and materials is generated through USIA's procurement system, or through the Bureau of Diplomatic Security, as agreed to in the USIA/Department of State Memorandum of Understanding dated August 28, 1985.

For large scale security and relocation projects, or at locations where USIA occupies FBO owned or long term leased facilities, USIA utilizes architectural and procurement services of our Design and Technical Assistance Branch, assisted by our Overseas Procurement Branch and Engineering Services Contract. USIA security officers work closely with State's Regional Security Officers, Engineering Service Officers, Foreign Buildings Office specialists, and the Physical Security Division personnel. Where possible, joint USIA/Department surveys are planned to include use of turnkey American contractors, such as those carried out or planned for USIA projects at New Delhi, Antananarivo and Bangkok.

While the increased use of approved contractors is anticipated, particularly for security construction supervision, the Agency has also accepted the Department's offer to utilize their Security Project Engineers when evaluation of unique security designs is mandated by USIA's mission requirements.

Finally, in order to meet Omnibus Diplomatic Security and Anti-terrorism Act of 1986 provisions, USIA submitted to State a requirement to expand the Agency's portion of the Department's Engineering Services Contract. While our request has been pending since mid 1986, we anticipate a favorable response in the near future.

PHYSICAL SECURITY OF USIA FACILITIES ABROAD

Question. What steps have been taken to implement this important task of providing physical security to the USIA operations abroad and in the United States? Have you developed a comprehensive plan to implement the $18 million program? Does the plan address security standards?

Answer. For the past several years USIA has devoted particular attention to enhancing security here and abroad. USIA has, at its own expense, considerably expanded its use of contract guards and established access controls at all its major Washington facilities. Electronic control systems (CCTV, alarms, etc) have also been expanded as appropriate at U.S. locations. $270,000 was made available under the FY-85/86 State Department Security Supplemental for installation of an automated access control system covering the Agency's Washington facilities. Installation is nearing completion and the system is expected to make possible tighter control of

building access during after hours periods and of access to restricted areas on a twenty-four hour per day basis. No funds or new positions were approved for USIA domestic application under the current Security Supplemental.

Working closely with the State Department Diplomatic Security Service (DS), our security staff compiled and issued DS-approved security standards in 1986. They are reviewed and updated periodically to reflect changing technology and threats. These standards take into account USIA's unique program and operational needs consistent with our public diplomacy mission, to maintain accessibility to those whom we seek to reach. We adhere completely to State Department's technical specification standards relating to forced entry and high powered rifle resistance, and use only State Department approved security systems. Where exceptions to the standards are justified due to program requirements (e.g. exceptions to the 100 foot setback standard) formal requests will continue to be submitted to DS for review.

USIA has developed a comprehensive plan to implement the $18 million overseas security program. The plan entails relocations of five USIA operations to safer sites, and security upgrades of 23 other major facilities. Initial site surveys have already been conducted for most of these projects, and equipment requirements are known for physical security systems involving access denial, intruder detection, access control, and emergency communications.

Recently completed agreements between USIA and the Department of State outlined design, construction, contracting, reporting and security requirements and procedures established by the Department in compliance with the Omnibus Diplomatic Security and Antiterrorism Act of 1986. USIA is now working with the Department to apply those procedures to USIA projects and fold these requirements into our security program planning.

A key part of the USIA security program entails use of private sector security engineering expertise to assist in technical security survey, design and installation. Where possible USIA will continue to participate in State Department surveys and project planning to coordinate and streamline joint efforts at individual posts.

The $18 million from the FY-86/87 Security Supplemental is just now being transferred from the State Department to USIA, thus we are now in position to put this security program plan to work.

SURVEY TRIPS TO OVERSEAS POSTS

Question. How many survey trips have been made to overseas posts? Identify the costs associated with these trips, the posts visited, and the improvements or actions that resulted from the trips.

Answer. USIA security officers made 28 overseas trips to 65 posts in FY 1986 and 15 to 43 posts in FY 1987, at a cost of $97,222 and $57,179, respectively. The majority of the trips were general inspections of the overall security posture of those USIA establishments to review the adequacy of physical, personal, and procedural security, and resulted in significant recommendations for increased protective measures. Many of the recommended public access control, perimeter, and other physical security projects have not been completed due to lack of funding. The Security Supplemental will underwrite the costs of those pending enhancements. Other trips involved communications surveys, installation of security systems at VOA radio relay stations, site surveys for relocations of Agency facilities, and project support and inspection during key phases of security system construction and installation. The following table provides a detailed review of these trips and their accomplishments:

OVERSEAS SECURITY INSPECTIONS

FY-86

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
10/7-10/11/85	Vancouver	$ 1,283	Pre-construction survey and threat assessment of USIA Expo exhibit	Perimeter, surveillance and Public Access Control systems recommended and funded.
10/22-11/8/85	Manila	3,032	Physical security surveys at VOA relay stations	CCTV system upgrade in progress. Communications equipment on order. Other recommendations on hold pending funds.
10/23-11/26/85	Bonn Berlin	4,782	Security inspections	Public Access Controls recommended and funded for Bonn and Berlin.
10/23-11/1/85	St. Vincent	1,917	Security survey for new VOA site	Recommendations and threat assessment provided to VOA/EP. Project cancelled by VOA.
11/3-11/15/85	San Jose	5,837	Security inspections	Public Access Control project initiated.
	Lima			Relocation site survey - site selected.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Buenos Aires			Public Access Control project 90% complete. Awaiting funds.
11/4-11/15/85	Punta Gorda	2,262	To install and inspect HF radio systems at VOA sites	Installation in Punta Gorda complete.
	San Jose			Inspection of Costa Rica system 70% complete.
	Quesada			
12/15-12/22/85	Dakar	2,976	Security inspection	Relocation and Public Access Control project complete.
1/6-1/15/86	Punta Gorda	1,622	Install and inspect security equipment at VOA sites	Performed installation of CCTV surveillance cameras in Punta Gorda.
	Belize City			Outbriefing in Belize.
	San Jose			Performed analysis of security system malfunction in Quesada.
	Quesada			Outbriefing in San Jose.
1/6-1/16/86	Marrakech	5,317	Security inspections	Security installation completed in Rabat,

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Rabat Casablanca Algiers			Marrakech and Casablanca. Perimeter and Public Access Control project initiated in Algiers. Awaiting funds.
1/20-2/1/86	Prague	5,150	Counterintelligence assessment survey.	Incorporate gathered information into briefing program for Czechoslovakia, USSR and Hungary.
	Moscow Budapest Leningrad			
1/28-2/7/86	San Jose Quesada	2,393	Inspect radio system and install HF system at VOA	Installed Mobile HF radios and completed system modifications at Quesada and San Jose.
2/5-2/12/86	Punta Gorda	1,498	Inspect and install security equipment at VOA	Completed installation of security console. Performed final adjustment of perimeter lighting.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
2/6-2/25/86	Selibi Pikwe	5,162	Security inspections of VOA	Provided emergency communications equipment. Other recommendations on hold pending funds.
2/6-2/28/86	Pretoria	6,553	Security inspections	Public Access Control projects in Pretoria, Durban and Cape Town completed.
	Cape Town			
	Johannesburg			Johannesburg Public Access control project pending agreement with landlord over proposed modification to building.
	Durban			
	Harare			Public Access Control project completed.
2/26-3/15/86	Bombay	3,190	Joint State-USIA security survey	All recommendations finalized, equipment identified - awaiting Agency decision on lease negotiations.
	New Delhi			DOS funded/implemented project. Final construction drawings completed by contractor. Construction to begin within two months.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
3/11-3/21/86	Lima	2,560	Security inspections	Relocation planning.
	Panama City			Security recommendations held in abeyance due to possible relocation of USIS offices.
4/7-4/9/86	Vancouver	961	Review security procedures and brief staff at USIA Expo exhibit	Operationally tested security equipment and reviewed security procedural guidance.
4/14-5/9/86	Lagos	5,379	Perform security installations and conduct radio communications training.	Installation of HF radio equipment completed and local training conducted at each Nigerian post.
	Kaduna			
	Ibadan			
	Kano			
4/21-4/29/86	Cannes	3,033	Procedures review and survey USIA exhibit	Exhibit provided with adequate security systems.
4/22-5/5/86	Bangui	3,603	Security inspections	Perimeter and PAC project completed.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Douala			Douala project cancelled due to post closure.
	Yaounde			Yaounde Public Access Control design completed. Awaiting funds.
5/7-5/10/86	Vancouver	1,217	To review final security systems at USIA Expo exhibit	Perimeter, surveillance Public Access Control systems operationally tested. Procedural security guidelines implemented.
5/12-5/20/86	Punta Gorda	1,488	Inspect and install security equipment	Effected repairs on CCTV damaged by direct lighting strike.
	Belize			Security outbriefing in Belize.
6/27-7/10/86	Colombo	7,011	Site survey for relocation	Public Access Control project initiated; awaiting funds.
	Singapore			Public Access Control project recommended.
7/6-7/19/86	Nicosia	8,002	Security inspections	Recommended new Public Access Control project. Awaiting funds.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Ankara			Recommended new Public Access Control project. Awaiting funds.
	Athens			Awaiting funds to complete enhancement project.
	Brussels			Public Access controls and security alarm system recommended and funded.
7/7-7/30/86	Manila	5,636	Perform communications surveys at VOA relay stations	Surveys completed; Philippines equipment orders delayed pending government approval of frequencies, equipment, etc. Equipment orders prepared.
	Tinang			
	Baguio			
	Poro Point			
	Athens			Grecian surveys completed, equipment recommended and

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Kavala			ordered, 50% is at station with remainder to be received from the manufacturer.
7/14-7/25/86	Belize City	1,614	Inspect installation of security equipment	Staff visit by Directors of VOA and Office of Security in conjunction of initial operations of site.
	Punta Gorda			
8/10-8/16/86	Guadalajara	789	Relocation site survey	Selection of new location approved. DS responsible for project funding and implementation.
9/11-9/22/86	Tunis	2,955	Security inspections	Revised construction requirements are at post for incorporation into architectural drawings.

FY-87

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
10/6-10/17/86	Manila	$ 2,063	Security inspections	Manila perimeter and Public Access Control project designed, awaiting funds.
	Cebu			Cebu and Davao relocation guidelines and procedures reviewed.
	Davao			
10/10-10/30/86	Dar-es-Salaam	5,015	Security inspections	Public Access Control design completed. Awaiting funds.
	Kampala			Public Access Control completed. Perimeter design recommended; awaiting funds.
	Nairobi			Reinspection, project completed.
	Antananarivo			Relocation recommended; awaiting funds.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
10/20-11/5/86	San Jose	4,684	Security inspections	Follow-up on prior inspection. Actions taken to coordinate Dynalectron installation team - project went from 50% to 90% complete.
	Lima			New building inspected and security recommendations were coordinated with USAID (co-tenant).
11/1-11/21/86	Dhaka	4,161	Approval of site selected for relocation	Post to relocate 1988.
	Muscat		Security inspections	Public Access control project proposed. Awaiting drawings.
	Doha		Security inspection	Perimeters and Public Access Control project completed.
	Sanaa			Project 50% complete. Construction begun on new guard house. All equipment at post. Awaiting funds.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
11/1-11/12/86	Monrovia	3,631	Installation project	Installation of electronic security systems complete.
11/3-11/15/86	Ibadan Lagos Kaduna Accra	2,904	Security inspections	All inspections and and reports complete. Lagos approved by PSD and awaiting FBO approval and funding. Ibadan is awaiting funds. Kaduna has been reviewed and approved by PSD and should be included in the Amconsul turnkey upgrade by PSD. Accra awaiting funding.
11/4-11/15/86	Bangkok	7,861	Security inspections	Perimeter and Public Access Control project recommended to the Department.
	Chiang Mai			Perimeter and Public Access Control project implemented. Installation trip scheduled.
12/1-12/17/86	Mexico City	2,074	Security inspection of Benjamin Franklin Library	Public Access Control project in process of approval by PSD.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Guadalajara			Perimeter and public access control project in progress.
12/2-12/13/86	Quesada	2,495	Security inspections	Recommendations for improvement of existing systems provided to VOA/E. Improvements currently in progress.
	San Jose			
12/17-12/19/86	Panama City	1,063	Joint State-USIA relocation site survey	New building selected - waiver initiated - awaiting PSO turnkey team visit.
1/26-3/5/87	New Delhi	6,103	Security inspections	Final review of drawings.
	Karachi			Department access control project in progress.
	Lahore			Survey conducted, awaiting funds.
	Islamabad			Survey conducted, awaiting funds.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Peshawar			Survey conducted, awaiting funds.
2/1-3/4/87	Pretoria	5,136	Security inspections	Additional Public Access Controls recommended due to office reconfiguration.
	Johannesburg			New Public Access Control design completed. Awaiting funds.
	Cape Town			Public Access Control designed for expanded office area.
	Maseru			Public Access Control design recommended; awaiting funds.
	Mbabane			Public Access Control design recommended; awaiting funds.
2/17-2/25/87	Lima	2,050	Joint USIA-State mission-wide residential survey	Mission-wide residential security program initiated.
2/23-3/17/87	Seoul	4,006	Security inspections	Public Access Control project recommended.

DATE	POSTS INSPECTED	TRIP COST	PURPOSE OF TRIP	ACTION TAKEN
	Kwangju			Relocation site selection survey (site not selected).
	Pusan			State Department Security Project Review.
	Taegu			Relocation site selection survey (site not selected).
	Kyoto			Relocation site selection (site selected - lease agreement pending).
2/25-3/17/87	Colombo	3,933	Security inspection of VOA relay stations and new site survey	Threat assessment recommendations for proposed new site provided to VOA/EP.
	Manila			

EAST-WEST CENTER

USIA is requesting $20 million for the East-West Center. The justification states on page 2 that the Center expects to generate an additional $5.7 million from other sources.

Question. In past years the USIA audit staff has taken exception to a number of the Center's financial practices such as overcharging the USIA grant for overhead expenses and early withdraw of funds. What is the status of exceptions taken by USIA on the Center's financial practices? Have all the exceptions been resolved?

Answer. USIA's last audit report on the East-West Center, dated July 14, 1986, stated: "No costs were questioned." All the exceptions taken by Agency auditors in previous reports on the Center's financial practices have been resolved. The 1986 report noted only that three recommendations from the 1985 audit regarding the Center's automated accounting system remained outstanding. Subsequently, those recommendations were implemented. The Agency plans to conduct its next audit of the Center in FY 1988.

Question. What are the sources of the $5.7 million? The justification notes on page 2 that the Center is developing a plan to generate a broader base of funding. Please elaborate on this plan. Will this ultimately reduce the amount of U.S. government funds appropriated to the Center?

Answer. The sources of the East-West Center's non-appropriated funds fall into the following broad categories: (1) cash contributions from foreign governments, (2) cost-sharing and donated services by foreign governments and U.S. and foreign institutions, (3) grants and contracts, and (4) restricted and unrestricted gifts and endowments from private corporations, individuals and foundations. Recent examples for each category are: (1) $400,000 from the People's Republic of China; (2) $25,000 from the Asian Development Bank; (3) $160,000 from the Indonesian Agroecosystems Network; and (4) $500,000 from Mr. Laurance S. Rockefeller.

The fourth category is the one the Center is developing to generate a broader base of funding. The mechanism is The East-West Center Foundation, a private corporation established "to raise funds from private sources in the United States and Asia in support of the East-West Center's programs." The Foundation's Board of Directors consists of 21 Asian and American leaders in business and public service, including Mr. Rockefeller; Henry Luce III; former Senators J. William Fulbright and James B. Pearson; Masaru Ibuka, co-founder and honorary chairman of Sony Corporation; and Chee-Chen Tung, chairman of American Asian Bank. Other contributions to the Foundation include $300,000 from the First Hawaiian Bank, $150,000 from the Luce Foundation, and $100,000 from Duty Free Shoppers Group Limited.

These monies are intended to supplement the Center's core funding from Federal appropriations, which, it is expected, will continue at generally the same level (with modest rises in future years to cover inflation). By expanding its base of support, the Center will be able to respond to new and changing issues in east-west relations and develop ties to more Asian institutions.

DRUG EDUCATION PROGRAMS ABROAD

Last year we appropriated $2,000,000 for drug education programs abroad. On March 16th the Subcommittee received a report of USIA plans for this money. It appears that part of this money is to be used for "U.S. participation in the UN conference on drug abuse and narcotics trafficking" this spring.

Question. How much of the $2,000,000 will be used for the UN Conference?

Answer. The USIA Task Force on Narcotics Programming allotted $25,000 for special media activity relating to this Conference. The VOA and the Television Service will each get $10,000 to help defer costs of sending correspondents to cover the Conference. The Wireless File was assigned $5,000 for the same purpose. Other USIA activities dealing with the UN Conference will be covered from regular Agency funds.

Question. Just what will be USIA's role in this Conference as this sounds more like a function of the Department of State, particularly the Assistant Secretary of State for International Narcotics Matters?

Answer. A major purpose of the Conference will be to consider the various public information and demand reduction aspects of the international narcotics problem. The Assistant Secretary of State for International Narcotics Matters has asked USIA to name an official representative to advise the U.S. delegation on matters relating to these questions.

INSPECTOR GENERAL

Question. The fiscal 1987 appropriation contained an earmark of $2,750,000 for the Office of the Inspector General. Recently, this Subcommittee received a letter from the Inspector General that said he would not be able to pursue a request that we had made due to a shortage of staff. Perhaps these are significant savings that could be utilized to meet increased costs elsewhere. Will the Office of the Inspector General be able to use the $2,750,000 earmarked for the office in 1987?

Answer. The Agency initially allocated $2,750,000 to the Office of the Inspector General (OIG) for FY 1987. However, budgeted salary costs are now expected to be lower as a result of higher staff turnover and vacancy rates than projected. This will be partially offset by absorption of the recent Federal pay and retirement increases, producing a net savings of $100,000 to $150,000.

Question. How many of the 43 positions assigned to the Inspector General are not filled and what is the exact status of the efforts to fill the vacancies; i.e., committed, recruiting, etc.?

Answer. As of March 25, 1987 the Office of Inspector General had 15 vacancies out of its 43 full-time positions. Candidates for the positions of Assistant Inspectors for Audit, Inspections, and Investigations are in the process of being selected. Three vacant foreign service positions have been advertised and are expected to be filled during the summer rotational cycle. Seven auditor positions have been advertised on a continuous announcement and selections will be made as qualified candidates apply. The Office plans to advertise for an investigator and a secretary after the Assistant Inspector General for Investigation is on board.

Question. When the Inspector General informed the staff that the requested review of the VOA modernization program had to be delayed, the staff shortages were attributed to transfers to the new State Department Inspector General's office. What would make working for State's Inspector General more desirable than USIA?

Answer. On January 5, 1987, Office of the Inspector General staff met with the Senate Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies staff to discuss the requested review of the VOA modernization program. At that

time, the subcommittee staff was advised that the VOA modernization review had to be delayed because of staff shortages and the fiscal year 1986 audit backlog. The staff shortages are attributable to retirements, foreign service officers rotating to overseas assignments, competition from other Federal Inspector General Offices (e.g., DOD IG and Air Force Audit), and resignations from government to pursue private sector careers. To date no member of our Office of Inspector General has transferred to State's Inspector General. However, because State's Inspector General is a new office without existing staff, greater promotion opportunities may be available.

Question. Given the problems encountered by the Inspector General this year, how valid is the earmarked $3,090,000 for that office in the 1988 request?

Answer. The staff shortages experienced by the Office of Inspector General are unusual and are not expected to continue in fiscal year 1988. Several of the staff vacancies are the result of new positions or requirements created by the Office becoming a statutory Inspector General in August, 1986. As recruitment actions are completed and the Office becomes fully operational as a statutory Inspector General, the requested $3,090,000 for fiscal year 1988 will be required. Fiscal year 1987 is a transitional year for the Office of Inspector General and the budget surplus that is expected to occur will not be repeated in 1988.

NATIONAL ENDOWMENT FOR DEMOCRACY (NED)

Question. Mr. Wick, why is the USIA foregoing restoration of vital VOA and the Soviet-East European programs, while the National Endowment for Democracy is budgeted for a 60% increase - to $25,000,000?

Answer. Both of these Agency programs and the National Endowment for Democracy represent high priorities for the Administration. It is important to remember that the Agency's budget submission to Congress is determined only after lengthy consultation with the Office of Management and Budget, the National Security Council, the State Department, and other Executive Branch agencies. For VOA, in this case, we had initially proposed that the 1988 budget restore a significant portion of the 1987 budget cuts. Following an initial allowance that would have meant further cuts in VOA and elsewhere, we appealed, and the joint Administration decision was that, given the enormous deficit problem with which we are all faced, VOA should continue at the reduced 1987 program level throughout 1988.

Our initial OMB request contained $32.6 million for the National Endowment. The final approved level was the $25.0 million now pending before you. The Administration decision was to ask for this amount. I certainly support the important work that the NED is doing.

Question. Am I correct that the NED request to OMB would have more than doubled the current level of $15,000,000? Does NED know that there is a major effort underway to eliminate the Federal deficit?

Answer. You are correct, but at the same time this request is now more than OMB's own FY 1986 recommendation of $31.3 million, adjusted to provide for inflationary increases. The Administration's current request ($25 million) is less than eighty percent of the start-up level of $31.3 million originally authorized for the Endowment in FY 1984.

The Endowment is well aware that it came on the scene during a period of extreme budgetary stringency. The fact that its appropriated level of funding has never even come close to the approved start-up figure is an indication of how it has been affected by -- and adjusted to -- the reality of tight budgets. The current Administration request of $25 million is simply a modest attempt to put the program on a more solid foundation.

To do so is important not only for the Endowment, but for the country. In creating the Endowment the United States raised the hopes of brave democrats in the Third World -- and in the communist world as well -- that our country was making an important new commitment to the democratic cause. A failure to provide the resources needed to support this effort in even a minimal fashion undermines this hopeful message and casts doubt on the seriousness of U.S. resolve to help our democratic friends abroad.

Moreover, the Endowment is one of the most cost-effective programs imaginable. The dedicated people who receive Endowment support make the most out of whatever limited help is available -- in South Africa, where courageous efforts are underway to find a democratic alternative to apartheid; in Poland, where Solidarity continues to struggle for survival and for independence from totalitarian rule; in Grenada, where the moderate forces prevailed in the historic election that followed the military liberation; in Haiti and the Philippines, where democracy is struggling to take root after decades of repression; in Chile, where a broad-based democratic opposition is pressing for a democratic opening; and in Central America, a region beset by sharp ideological confrontation.

If the United States had had such a program underway in Nicaragua during the decades proceeding 1979, there might have been a viable democratic alternative to Somoza. Think of how much we could have saved ourselves -- in money and in grief -- if we had pursued the path of timely democratic commitment instead of neglect and complacency. The conclusion of Shirley Christian's careful study of the Nicaraguan revolution is relevant here: "Only by promoting democratic political development on a long-term basis can the United States hope to avoid the hard choices between sending troops and accepting a regime that overtly opposes its interests."

It is vital that we provide the resources to continue and expand th Endowment's mission. To do otherwise will be to betray the hopes of those around the world who look to our country for desperately needed assistance.

Question. How much private money has NED and the Institutes raised since inception? Please provide a summary of the amounts raised by each entity for each fiscal year, as well as a listing by name and amount of contributions of $1,000 or more.

Answer. Since its inception in 1983, NED has received $17,087 (FY 85 - $1,076; FY 86 - $3,600; FY 87 - $12,411) in private contributions and grants. Grant awards and contributions of $1,000 or more have been made by the following donors:

Sally Shelton-Colby	$1,000.00
William E. Brock III	1,000.00
Smith-Richardson Fdtn.	6,861.31
Amway Corporation	5,000.00

The only private money that has been contributed to the Free Trade Union Institute has come from the AFL-CIO. The AFL-CIO has also contributed to the operating budgets of the three regionally-focused institutes which implement most of the programs funded by FTUI with grants awarded by the Endowment.

The AFL-CIO's contributions are:

	1984	1985	1986	1987
PTUI	$ 53,000	$ 83,000	$ 83,000	$ 85,500
AFFLI	130,000	130,000	130,000	130,000
AALC	216,500	216,500	216,500	216,500
AIFLD	230,000	230,000	230,000	230,000

The Center for International Private Enterprise has received a total of $11,133 in private funds (FY 83 - $1,800; FY 84 - $9,333). Contributions and grants in excess of $1,000 have been made by the following donors:

IRBY Construction	$1,000
Cooper Laboratories	1,000
Smith-Richardson	8,333

The National Republican Institute for International Affairs had received donations totalling $50,150 (FY 85 - $50,000; FY 86 - $50; FY 87 - $100). A contribution in excess of $1,000 has been made by the following donor:

Canadian Occidental Corporation	$50,000

A summary of private contributions raised by the National Democratic Institute for International Affairs follows.

NATIONAL DEMOCRATIC INSTITUTE
FOR INTERNATIONAL AFFAIRS
Suite 605, 1717 Massachusetts Avenue, N.W. Washington, D.C. 20036 (202) 328-3136 • Telex 5106019068 NDIIA

March 30, 1987

Louise Siffin
National Endowment for Democracy
1101 15th Street NW
Suite 203
Washington, DC 20005

Dear Louise:

Per the request of the Senate Appropriations Subcommittee on State, Justice, Commerce, Judiciary, and Related Agencies, attached are the summary of yearly non-federal income for the National Democratic Institute since fiscal year 1984 and the list of NDI donors of $1,000 or more.

These figures represent a major effort by NDI to secure private donations for the Institute's activities. NDI has gone so far as to hire fundraising staff, with non-federal funds, to carry out this work. We began this effort because we believed that NDI should make a good faith effort to see -- as some on the Hill have suggested -- whether we could fund our democratic development activities exclusively with private contributions.

The income figures indicate, however, that non-federal funding sources have been able only to augment, but not replace, congressional funding. The Institute has found it particularly difficult to raise funds from foundations and corporations, due to a perception that NDI is a partisan organization, although all of the Institute's activities are non-partisan. Most of our individual contributions come from Board members or friends of our Board.

I ask that you make a copy of this letter available with your submission to the Subcommittee. Please feel free to call me if you have any questions.

Sincerely,

Brian Atwood
President

Enclosures

SUMMARY OF NON-FEDERAL INCOME, NATIONAL DEMOCRATIC INSTITUTE
FISCAL YEAR 1984 - FISCAL YEAR 1987

FY 1984:	$22,819
FY 1985:	$177,982
FY 1986:	$235,858
FY 1987:	$114,378.63 (thru 1/31/87)

DONORS OF $1,000 OR MORE TO NATIONAL DEMOCRATIC INSTITUTE

Name	# Contributions	Total $
The Ahmanson Foundation	1	$5,000
Ms. Madeleine Albright	6	$30,175.52
Archer Daniels Midland Company	1	$2,000
Mr. Richard Annotico	2	$5,000
Mr. W.S. Archibald, Jr.	1	$1,000
Mr. Gerald J. Austin	3	$3,650
Mr. and Mrs. Smith Bagley	3	$4,050
Communications Workers of America	6	13,333.75
Leon Templesman and Sons	2	$7,000
International Brotherhood of Electrical Workers	5	$5,000
Mr. Anthony Bianca, Sr.	1	$2,500
American Postal Workers Union	4	$3,500
Dr. Joyce Brown	1	$2,446
Patton, Boggs, and Blow	3	$3,250
Hallmark Cards Inc.	1	$2,000
Banco-Popular de Puerto Rico	1	$1,500
Sheet Metal Workers International Union	2	$3,000
Mr. Richard F. Celeste	2	$4,000
Mr. Jack Coopersmith	1	$1,000
Mr. E. William Crotty	1	$1,000

Name	# Contributions	Total $
New Haven Terminal Inc.	3	$2,750
Ms. Miriam Cruz	1	$1,500
AFL-CIO	2	$4,500
International Association of Ironworkers	3	$7,500
Seafarer's International Union	2	$6,250
International Union of Operating Engineers	1	$1,250
Mr. John P. Dunfey	4	$14,500
Mr. Charles H. Dyson	2	$2,500
Mr. Harold R. Evans	3	$2,750
Amalgamated Clothing and Textile Workers Union	3	$5,700
Mr. Bondie Gambrell	2	$5,100
International Longshoremen's Association	1	$1,250
Mr. Bernard Grand	1	$1,250
Hotel and Restaurant Employees Union	1	$1,000
Philip Morris International	2	$21,922.53
The Harris Foundation	3	$3,000
Ms. Marife Hernandez	6	$13,013.29
American Federation of Teachers	4	$14,500
Maradem Oil Inc.	1	$1,500
International Brotherhood of Boilermakers	2	$1,250
International Union of Bricklayers	6	$21,200
Mr. Melvin Kates	2	$5,250
Ms. Patricia Keefer	3	$4,225
Mr. Peter G. Kelly	3	$7,000
Brotherhood of Railway and Airline Clerks	1	$1,250
Mr. Jim King	2	$2,030
Mr. Elliott P. Kulick	3	$12,000
Joseph E. Seagram & Sons Inc.	1	$2,000
Ms. Maryon Davies Lewis	1	$4,500

Name	# Contributions	Total $
Mr. Lewis Manilow	3	$8,500
Mr. Boe Martin	1	$1,300
International Ladies Garment Workers Union	2	$1,250
Mr. H. Carl McCall	1	$7,446
Mr. Vincent McCarthy	1	$1,500
American Federation of State, County, and Municipal Employees	2	$3,500
Ms. Juliette C. McLennan	3	$2,250
National Education Association	6	$11,250
Mr. Julius Michaelson	2	$3,000
Mr. Harle G. Montgomery	1	$1,000
Mr. William Oldaker	3	$2,725
Cookson America Inc.	1	$2,000
Dr. Ming-min Peng	1	$2,000
International Brotherhood of Teamsters	1	$2,500
Mr. Paul Quinn	4	$1,500
Mr. Dwight Schweitzer	1	$1,500
The Charles E. Smith Trust	1	$1,500
National Association of Letter Carriers	2	$2,500
America First Investment Corp.	2	$9,500
The Philip M. Stern Family Fund	1	$1,000
United Rubber Workers of America	2	$1,250
Mr. John Patrick Sullivan	2	$4,000
Service Employees International Union	2	$3,000
Mr. and Mrs. Robert B. Wallace	2	$2,500
Mr. Thomas J. Watson, Jr.	1	$1,000
Mr. Frank Weil	1	$2,000
Mr. Marvin Weissberg	6	$13,057
United Steelworkers of America	4	$9,500
United Food and Commercial Workers	1	$2,500
The Ford Foundation	1	$25,000

Name	# Contributions	Total $
American Express Foundation	1	$10,000
Chevron USA Inc.	1	$1,000
Columbia Foundation	1	$5,000
The German Marshall Fund of the United States	1	$3,000
Muskiwinni Foundation	1	$1,500
Pepsi-Cola U.S.A.	1	$1,000
Phillips Petroleum Company	1	$1,000
L.J. and Mary C. Skaggs Foundation	1	$5,000
Pacific Telesis Foundation	1	$2,500
Mr. Michael Donlan	1	$1,250
Mr. Gerald Mitchell	1	$2,800
Blum-Kovler Foundation	1	$4,500
Anonymous	1	$5,500
Rank Zerox	1	$5,000
Occidental Petroleum Corp.	1	$2,000
Joseph Anthony Beirne Memorial Foundation	1	$10,000
International Products Locators	1	$5,000
SIN Television Network	1	$10,002.24
Metro Spanish Food Wholesalers	1	$5,000
Mr. Charles T. Manatt	1	$2,500
Avon Products	1	$6,000
Gray and Company	1	$3,000
Touche Ross and Company	1	$3,000
Anonymous	3	$37,531
Interface International	1	$3,000
Federal Express	1	$5,000
Mr. Edmund Beard	1	$2,000
Mr. Jay Doherty	1	$2,000
Mr. Daniel O'Brien	2	$2,000
Mr. James H. Lee	1	$1,000

Name	# Contributions	$ Total
Atlantic Richfield Company	1	$5,000
Ronald M. Ansin Foundation	1	$1,250
Independent American Corp.	1	$1,800
Ms. Myrna Prieto	1	$1,500

Question. Do any of the NED grantees receive funds from other U.S. Government agencies?

Answer. In some cases they do, but usually for kinds of programs different from those funded by the Endowment. The Endowment staff consults with USIA, AID and other government agencies to avoid using NED resources for projects that could appropriately be funded by government agencies.

Question. NED's justification on page 10 shows that $5.5 million is to be used for "Education, Culture, and Communication." Does this not represent a duplication of USIA's Educational and Cultural Affairs area?

Answer. The Endowment's activities in the area of "Education, Culture, and Communications" do not duplicate USIA's programs in the area of Educational and Cultural Affairs.

USIA's overall mission is to tell America's story abroad and to explain U.S. policies. While telling the story of American democracy goes a long way in disseminating universal democratic values, it is not the same as providing financial and technical assistance to indigenous groups working on behalf of democracy in their own countries. A review of the Endowment's work in "Education, Culture and Communications" should make clear that it is not duplicative of USIA's programs carried out by the Bureau of Educational and Cultural Affairs, which are primarily educational exchange programs and international visitors programs between the United States and other countries. Endowment programs in this field include:

> Support for independent newspapers, journals and other communications media. Specific examples of this have been the Endowment's support to independent newspapers such as the Nicaraguan daily, La Prensa; a Guyanese weekly, Stabroek News; and South Africa's City Press, as well as to Radio Nanduti, the only independent medium in Paraguay following the closing of ABC Color.
>
> Support for democratic education. This element of the Endowment's work focuses on training in democratic practice and principles, primarily for youth. Programs in this area have included YMCA youth-in-government programs in Panama, Costa Rica and the Philippines, and a similar program in Argentina, democratic education programs for youth in Dominica, Guatemala, Chile and Afghanistan.
>
> Support for activities directed at strengthening popular understanding and intellectual advocacy of democracy. These programs involve the dissemination of foreign and indigenously produced books, video and films, television or radio programs illuminating or advocating democracy; and efforts to promote associations among pro-democratic intellectuals, writers, scientists and artists. Some examples of these programs have been a major publishing and intellectural center for Central America based in Costa Rica, and centers for non-partisan dialogue and research in such countries as Guatemala, Chile, Paraguay, Colombia, Ecuador and Peru.

One of the most important aspects of NED's work in this area has been activities in closed societies, where efforts in the realm of culture and opinion are the only means available for promoting progress toward democracy. This work includes making available outside sources of information and ideas, and assisting in the publication and dissemination of independent scholarly or artistic works produced within. One very exciting aspect of this has involved the production and dissemination of

video cassettes. Endowment assistance to closed societies also seeks to provide information about and protection to independent scholars and artists, as well as human rights activists and political dissidents. Programs such as these have been carried out with respect to the Soviet Union, Poland, Czechoslovakia, Romania, Estonia, Hungary, Cuba and China.

Question. Are any of NED's grantees in this category also recipients of grants from other USIA programs?

Answer. Of the Endowment's major U.S.-based grantees (i.e., FTUI, CIPE, NDIIA, NRIIA) only FTUI has received USIA assistance for exchange and international visitors in the labor field. Of the Endowment's smaller grants, some U.S. groups have been recipients of USIA grants for visitors programs, exchanges and private sector programs. However, it should be noted that other than FTUI, CIPE, NDIIA and NRIIA, U.S.-based Endowment grantees are normally budgeted funds only for grant administration expenses and the bulk of the funds in those grants (approximately 90%) are budgeted for the activities of the foreign groups. USIA does not normally award monies to groups abroad, but as the result of consultations, has on occasion agreed to fund portions of programs abroad where an exchange of persons is involved. This support usually comes either from very small Embassy resources or out of the American Participants elements of USIA's Bureau of Programs. Ordinarily, the Endowment does not fund programs that are more appropriately funded by USIA.

Question: NED has had almost four years of operational experience. Has NED performed any evaluations of the programs that it has funded? If so, what were the results and what lessons were learned? If not, why has there been no evaluations? Are NED's grantees audited to determine if terms of the grants have been met?

Answer. The Endowment's grant agreements with all its grantees require that they submit an evaluation of each project with their final reports. Thus the Endowment has now received a great number of evaluation reports on completed projects. In addition, the Endowment staff periodically seeks to supplement or verify information provided in grantee final evaluations through on-site visits, reviews of produced materials (especially publications), consultation with program participants, and outside review by governmental and non-governmental experts and observers. Some of the general lessons the Endowment has learned through these various aspects of the evaluation process have helped to shape its overall grant policies: a preference for programs designed by indigenous organizations rather than outside consultants; the need for careful monitoring of programs in progress to ensure that the stated grant purposes are being carried out or that any alterations are justified by changed circumstances; the desirability of securing counterpart funding wherever possible; and the advisability of keeping initial funding at a modest level so that the groups do not become unduly dependent on Endowment funds and can diversify their sources of support. In addition, future funding decisions about many individual projects have been substantially influenced by evaluation findings. (Revised procedures adopted by the Endowment Board in September 1986 require that for all proposals "where continuation or follow-up of a previously funded project is requested, a review and summary of the evaluation to date of the previously funded project must be included.")

The Endowment also periodically convenes meetings of experts to provide more general evaluations of its work in major program

areas. In December 1986, for example, it brought together a group of distinguished scholars including Zbigniew Brzezinski, Leopold Labedz, Walter Laqueur, Peter Reddaway, Richard Pipes and Herbert Ellison to review its programs in Eastern Europe and the Soviet Union.

Except in special cases, Endowment grantees are required to submit annual financial audits prepared by licensed public accountants. All NED grantees are subject to audit by GAO and USIA. In addition, NED performs its own audits of selected grantees.

Question. Has USIA performed any assessment of the NED operation? If so, what were the findings? If not, why has USIA not conducted such an assessment?

Answer. USIA's office of the Inspector General has just issued its report of the audit of USIA's grant agreement with the National Endowment for Democracy, covering administrative activities for fiscal years ended September 30, 1984 and 1985. Copies of the report have been sent to Senator Ernest F. Hollings and Congressman Daniel A. Mica, at their request.

INSTITUTE FOR NORTH-SOUTH ISSUES

On February 15, 1987, a front page article in The New York Times revealed the extent of the Project Democracy program that Lt. Col. Oliver North operated at the White House. The article linked NED to Project Democracy which Walter Mondale and Frank Fahrenkopf denied in an op-ed column in the same paper on February 23rd. However, there are some questions that still persist.

The Atlanta Constitution on February 20th reported that NED had awarded $493,773 in grants to the Institute for North-South Issues, apparently Francis Gomez and Richard Miller are the principal officers and founder of both the Institute for North-South Issues and a firm called International Business Communications that was part of Lt. Col. North's network. North-South Issues, or at least NSI is also on the Lt. Col. North's chart that the Tower Commission published. Both outfits share the same offices. The Institute also had a contract with USIA.

Question. Last week NED terminated its grant to the Institute, but please tell us, how did NED get in contact with the Institute?

Question. Did NED know who it was dealing with when it made grants to the Institute? If you did, why did you get involved with them; if you didn't why didn't you check them out?

Question. If this is an illustration of how NED awards grants, how can we rely on your judgment if you don't know who you are dealing with?

Answer. The National Endowment for Democracy receives many proposals directly from foreign organizations. In funding such organizations, the Board of the Endowment has chosen to have the grant administered by U.S. based groups. This policy facilities the establishment of ties between U.S. private sector groups and their foreign counterparts and can provide the foreign organization with substantive and technical expertise.

There are, of course, costs associated with the administration of a grant. For example, the Endowment requires quarterly

program and financial reports and other documentation concerning the progress of the program. At the same time, the Endowment has insisted that administrative costs for its U.S. grantees be kept to an absolute minimum. Generally an administrative budget is less than twelve percent of the entire grant award. This is an extremely low overhead rate, as can be confirmed by comparison with other grant making organizations.

The Endowment received a proposal from the Caribbean Publishers and Broadcasters Association (CPBA) in June 1985 for a program to conduct a seminar for newsroom decision-makers and a training program for journalists of the smaller Caribbean islands. Following review of this proposal, the Endowment asked CPBA what U.S. organization would best be suited to administer the program and provide assistance. This is standard Endowment practice.

Harold Hoyte, the President of CPBA, in a letter of July 10, 1985, requested that INSI serve as the U.S. grantee since the CPBA had had previous contact with that organization. Specifically, INSI had had contact with the CPBA since INSI had carried out an international visitor program for USIA for a member of the Caribbean media. INSI was established as a nonprofit corporation registered in the District of Columbia in late 1983 and specialized in programs for visitor exchanges (it had been a subcontractor for multiple USIA International Visitor programs).

The Endowment, as well as the CPBA, knew of INSI, largely through its president, Frank Gomez, who had been Director of the Foreign Press Centers in Washington, New York and Los Angeles for the U.S. Information Agency and, earlier, served as Deputy Assistant Secretary of State for Public Affairs. As a Foreign Service Officer, Gomez served in Latin America, the Caribbean and Africa. He had an exemplary record of public service and, in his tenure as PAO in Haiti in the 1970s, is even credited with saving the lives of some who struggled against the Duvalier regime.

After reviewing standard organizational information on INSI which, as a matter of procedure, the Endowment requests from all potential grantees, INSI was found well suited to serve as the U.S. grantee, based on its extensive experience with Caribbean journalism. The Endowment Board approved this selection and awarded the grant for the CPBA program in January 1986.

The Endowment also received a proposal for the establishment of an institute in Haiti to promote research and democratic cooperation for the consolidation of a new democracy in the post-Duvalier era, and to promote civic education in preparation for the 1987 elections. Because of Frank Gomez's experience and distinguished service as PAO in Haiti during the 1970s, and because the Haitian group (the Haitian International Institute for Research and Development - IHRED) had had prior contact with Mr. Gomez, IHRED requested that INSI serve as the U.S. administering organization.

The fourth grant in question made possible the establishment of an independent newspaper in Guyana in cooperation with the Caribbean Publishers and Broadcasters Association. Because the CPBA was already working with INSI, INSI was viewed as a natural partner for this program.

The Endowment, in consultation with the subgrantees, did check out the credentials of INSI and its principals prior to the awarding of grants, as it does as a matter of standard practice. Given the exemplary record of public service compiled by its

President, Frank Gomez, and the record of carrying out international visitor programs for USIA, INSI was viewed as an appropriate recipient for the receipt of Endowment funds.

Recent press reports have noted that two officers of INSI are also associated with a separate organization, International Business Communications, which has been involved in activities linked to the Iran-Contra controversy. It should be noted that IBC also, although it is separate from INSI and did not receive Endowment funds, had a record of respectable business activities, including organizing the visit of Philippines President Aquino to the United States, consulting on the Guatemalan elections, and promoting tourism in Panama. Therefore, there would have been nothing to indicate that his separate organization was involved in any covert activities.

The Endowment's financial staff has recently completed its financial review of the grants to INSI which has turned up no misuse by INSI of Endowment funds. Our funds were not spent for any purposes other than those specified in the grant agreements.

The Endowment conducts a careful program and financial review of all potential grantees. In the case of INSI, the Endowment relied upon the distinguished reputation and extensive experience in the fields of Caribbean journalism and Haitian issues of INSI's president, as well as on the preferences of the foreign groups. It is important to note that no one has questioned the value of the programs funded, and that this entire controversy involves activities unrelated to the Caribbean grants, activities of individuals acting through organizations that were themselves unrelated to the grants. The Endowment cannot control the activities of grantees that are not carried out with our funds. At the same time, it must take every conceivable precaution -- including alerting potential grantees to the danger of engaging in extraneous activities that could have a negative bearing on the program -- to anticipate all possible problems that may arise in relation to any particular program or organization.

Question. The grant to the Institute was reportedly cancelled because the Endowment should not be tainted by controversy.

A. Is avoiding controversy the way NED operates?

B. How valuable was this work that the Institute was doing since it could be abruptly stopped?

Answer. The work of the Endowment is, in many cases, controversial by its very nature. We do not and have never shied away from this. The Endowment and its grantees are working for democracy in difficult, sometimes dangerous, situations. While often attacked from the nondemocratic left and right, courageous democrats doing this work have refused to be intimidated, and the Endowment is determined to remain supportive of their efforts.

It is an entirely different matter, however, when an unrelated and extraneous controversy threatens to harm these efforts. That was the case with respect to the four Endowment grants in the Caribbean administered by INSI. Both INSI and the Endowment agreed that, in order to protect the important and highly praiseworthy work of the Caribbean organizations, INSI should disengage from the grants.

The Endowment Board, at its March 13, 1987 meeting, directed that this separation take place in an orderly and responsible

fashion -- again with the view that the work of the Caribbean organizations not be unduly interrupted or delayed. Endowment staff, in cooperation with INSI and its foreign grantees, are proceeding to execute the novation agreements now.

As we have pointed out above, the U.S. organization plays a valuable role in administering a grant, monitoring its progress, evaluating the results and providing necessary technical assistance. In the case of INSI, the grants are nearly completed, and it should be possible for the Endowment itself to perform the administrative functions without placing an undue strain on its limited staff.

NED COORDINATION WITH THE ADMINISTRATION

NED has gone to great lengths to disassociate itself with the Administration. However, we know that State has a staff that spends a lot of time on NED and that the National Security Council has a staffer or two involved with NED.

Question. The question then arises, how private is NED since there is so much official involvement?

Answer. The Endowment keeps the U.S. Government fully informed of its programs and solicits the views of relevant U.S. officials in Washington and in embassies abroad, in addition to consultation with a wide range of experts more generally. Congress, in the Endowment's FY 1986-1987 authorizing legislation, codified NED's consultation process with the Department of State (PL 99-93), stating that:

> "The Endowment shall consult with the Department of State on any overseas program funded by the Endowment prior to the commencement of the activities of that program."

The Endowment has, of course, been responsive to this congressional directive, and the Executive Branch -- as well as the Legislative Branch -- have been helpful to NED in providing their views and advice. However, the Endowment will continue to be effective in working with private groups abroad only if it remains a nongovernmental organizational representing a consistent, bipartisan, long-term approach to strengthening democracy abroad.

GRANTS BY DEMOCRATIC AND REPUBLICAN INSTITUTES

Question. Am I correct that the National Republican Institute for International Affairs gives funds to organizations to which tne Republican National Committee is a member? Why do they do that and how much does it amount to?

Answer: The National Republican Institute for International Affairs (NRI) has made grants to the International Democrat Union (IDU) and to the Pacific Democrat Union (PDU), two organizations of which the RNC is a member. Of course, NRI funds are separate from the dues which the RNC pays to each of these organizations as a member and, further, these NRI funds do not fall under the control of the Republican National Committee.

NRI grant funds for the IDU are used to support the publications program of the IDU and to assist IDU in outreach activities related to new members. Funds to the PDU are used to assist the PDU's efforts to identify like-minded parties and political institutions in the South Pacific and South Each Asian regions.

In assisting programs of the IDU and PDU, NRI is helping to strengthen a new international forum of political moderates. In many instances, initiatives will be carried out more effectively through such a multilaterial forum than bilaterally.

Grant funds:

International Democrat Union	$50,000
Pacific Democrat Union	49,500
TOTAL GRANT FUNDS	$99,500

National Republican Institute for International Affairs

April 7, 1987

Mr. Warren Kane
Staff Director
Senate Appropriations Subcommittee
S146A Capitol
Washington, D.C. 20510

Dear Warren:

Owing to confusion between ourselves and the NED the figures provided in response to one of Senator Hollings inquiries are in error. The confusion resulted from differences in expenditures and obligations on our grant programs with the IDU and PDU. The figures should read as follows:

	Expenditures	Obligations	Total
International Democrat Union	$15,000.	$35,000.	$50,000
Pacific Democrat Union	$34,500.	$49,500.	$84,000
Totals	$49,500.	$84,500.	$134,000

I apologize for the confusion and hope that these numbers offer a more accurate portrayal of our work with these two grantees.

Sincerely,

Keith E. Schuette

STATE ROLE WITH NED

Question. What is the role of Ambassador Helman at State Department with regard to NED's projects?

Answer. Ambassador Helman is Deputy to Under Secretary Armacost. He facilitates consultation and cooperation between the State Department and the Endowment.

Question. We understand that Ambassador Helman sends projects to the CIA to keep NED from getting involved with the wrong organizations or into something that the CIA is involved with. Does that mean that NED and the CIA are doing the same thing?

Answer. Congress requires that the Endowment consult with the State Department on all prospective grants. The Department takes these instructions seriously and tries to provide the National Endowment for Democracy with its best advice and guidance. The Department is also most mindful of the statements made in the past that there shall be no involvement by NED in covert activities. There certainly is no purposeful involvement. To be prudent, the Department sends NED's proposals, which are unclassified, to the CIA to assure that there is no inadvertent involvement.

Question. Are the grants of the Asia Foundation or the Inter-American Foundation similarly checked with the CIA? If not, does this indicate that NED is closer to CIA than other groups?

Answer. No. There is no comparable requirement by Congress for consultations with the Department.

Questions Submitted by Senator Bumpers

EDUCATIONAL AND CULTURAL PROGRAMS

Question. Your budget justification indicates that the Educational and Cultural Programs account is slated for a $960,000 programmatic increase in FY 1988 over the FY 1987 budget authority, of which $560,000 is proposed for new programs in South Africa. As you know this account was authorized at $145 million for FY 1987, but $25 million was restricted from obligation until October 1, 1987. Do you support this Subcommittee including an additional $25 million in outlays in the FY 1988 appropriation to ensure that the $25 million deferral does not become a "permanent" deferral?

Answer. The Agency's FY 1987 appropriation legislation reads as follows: "For expenses of Fulbright, International Visitor, Humphrey Fellowship and Congress-Bundestag Exchange Programs, as authorized by Reorganization Plan No. 2 of 1977 and the Mutual Educational and Cultural Exchange Act, as amended (22 U.S.C. 2451 et seq.), $135,270,000, of which $24,270,000, to remain available until expended, shall be available for expenditure on October 1, 1987. For the Private Sector Exchange Programs, $9,780,000 of which $730,000, to remain available until expended, shall be available for expenditure on October 1, 1987 . . . ." The intent of this language was to limit Exchange Program outlays in FY 1987. It did not restrict our ability to obligate the entire FY 1987 Exchanges appropriation. We have adjusted those obligation rates so that we will comply with the appropriation's outlay requirements. We are hopeful that this restriction is a one-time requirement to meet a specific FY 1987 outlay situation.

Question. What are you planning to do with the $560,000 in South Africa? Are any of these funds available to South African opposition figures presently in exile in other countries? How do you characterize the message broadcast over VOA to South Africa with respect to the implementation of sanctions? Have any VOA programs dealt with the upcoming elections in South Africa? What was the nature and content of such broadcasts?

Answer. We are planning to use the additonal $560,000 for South Africa as follows:

--to increase the new SA lawyers program from 5 to 10 participants, giving one-year clinical training and internships to hone the advocacy skills of disadvantaged lawyers and improve their chances to be licensed as "advocates" from which the pool of persons eligible to be appointed to judgeships is drawn. This expansion would cost approximately $150,000.

--to increase the number of English teacher trainers and supervisors (who work with English teachers at disadvantaged high schools) from 25 to 50 who will develop their skills in a summer institute. This project addresses the deterioration of English fluency among students and teachers at disadvantaged SA nigh schools largely caused by the Bantu Education Act which has mandated the teaching in African languages in primary schools. This program expansion will, for the first time, make it possible to touch high schools in all areas of South Africa. It will cost approximately $250,000.

--to increase the number of classroom teachers of English as a second language who will participate in year-long training in U.S. universities, from 5 to 15. This program addresses much

the same situation described above, but focuses on classroom teachers who typically have little higher education and need more varied and longer-term training. This program expansion will cost approximately $160,000.

None of these enhancement funds would be available to "opposition figures in exile in other countries." All participants in Fulbright exchanges would have to make application to a USIS post in South Africa and be selected with a view, in part, to the commitment and ability to return and work successfully in South Africa.

VOA's central news and current affairs divisions and language services to Africa have broadcast complete coverage of the debate about a South Africa sanctions policy. Our reportage has included remarks by Administration officials and Members of Congress, citizen interest groups in the United States, and Government and private specialists in many countries interested in South Africa. We also have broadcast to South Africa the comments of leading South African voices, including those of Prime Minister Botha, Chief Buthelezi, and Bishop Tutu. On February 26, VOA broadcast a 20-minute documentary on sanctions against South Africa. VOA conducted interviews with Senators Paul Simon and Nancy Kassebaum, Congressman Howard Wolpe, and other figures on sanctions; package reports included the views of Senator Kennedy and Congressmen William Gray and Ron Dellums. We also extended English to Africa broadcasts for live coverage of Secretary Shultz's address on U.S. policy toward South and southern Africa in the wake of the sanctions vote.

VOA has reported the forthcoming May 6 elections in a number of ways. We have covered the views of all the major parties, inside and outside the electoral process. We have quoted spokesmen for the ruling National Party, the Progressive Federal Party, and those of racial groups excluded from the election under South Africa's racial laws.

A recent VOA background report dealt with the split within the National Party and how radical opposition groups view the division within the Afrikaner community. Since the state of emergency was declared in large areas of South Africa last year, mail received from listeners in that country has increased. Local shopkeepers have reported that the sale of shortwave receivers is up considerably, as more and more South Africans turn to international broadcasts for uncensored news.

Question. How many Africans studied in the U.S. last year through this account? How many Africans studied in the Soviet Union? How do you justify little to no programmatic increases with the Soviet Union obviously winning the struggle over the "hearts and minds" of those in the developing world? Aren't educational and cultural exchanges the best way to wage such a struggle?

Answer. 399 Africans studied in the United States under USIA grants during 1986, and an additional 701 participated in the International Visitor Program. According to the latest available statistics, 16,990 Africans were being trained in the Soviet Union in 1985, and an additional 10,985 in other Eastern European countries. In conformity with the Administration's commitment to hold Federal spending to the absolute minimum, the Agency's FY 1988 budget request includes only two modest program increases for its educational and cultural exchanges appropriation. One of those two increases, representing the bulk of new program funds requested, is for the expansion of programming in South Africa.

The Soviet Union vastly outspends the U.S. government public diplomacy efforts. We cannot match the magnitude of the Soviet effort, but we can ensure that U.S. resources are directed to the most effective methods of increasing understanding on important issues. We agree that educational and cultural exchanges are such a method, and it is in that belief that the Congress and the Administration have cooperated to virtually double funding for exchanges worldwide since 1982. Despite current budget stringencies, we intend to maintain the programs at their expanded levels and even, where possible, to enhance them as noted above.

Question. I am interested in expanding the Fulbright exchange program to include more exchanges to more diverse areas for elementary and secondary teachers in the U.S. and abroad, but not at the expense of other Fulbright programs. How many elementary and secondary school teachers participated in this program last year? From which countries did teachers studying in the U.S. originate? To what countries did U.S. teachers travel? What are your views on increasing this portion of the Fulbright program?

Answer. The Agency's Fulbright Teacher Exchange Program provides opportunities for U.S. and foreign teachers, principally at the elementary and secondary education level, to exchange classroom-for-classroom teaching positions for an academic year. In FY 1986, a total of 451 teachers participated in the program, including 390 at the elementary and secondary levels. Programs involved West Germany, France, Switzerland, Belgium, the Netherlands, Norway, Denmark, the United Kingdom, Canada, Argentina, Colombia, Costa Rica, Australia, and South Africa.

We strongly support the expansion of this program and, indeed, have expanded it since authority over it was transferred to USIA from the Department of Education. Its multiplier impact is tremendous, given the level of interaction that teachers on exchange have with host students, teaching colleagues, and communities, as well as similar audiences after returning home. The program is also extremely cost effective, given the fact that most teachers on exchange remain on their home salaries, negating the need, in most cases, for funding from us. For every dollar that is spent on the program by the U.S. Government, we estimate that eight dollars are contributed from the private sector. We are successfully expanding this program into Asia, Africa, and Latin America and hope to continue this expansion in the years ahead.

EQUAL OPPORTUNITY EMPLOYMENT AT WORLDNET

Question. Reports have it that staff morale at WORLDNET is low, and this concerns me greatly.

Answer. Unsubstantiated, undocumented "reports" that staff morale at WORLDNET is low are obviously difficult to answer. Our information is that the morale of the WORLDNET staff, including writers, producers, and reporters who are actively engaged in bringing the United States Information Agency worldwide network to fruition, is excellent. Some personnel shortages require a fair amount of overtime and weekend work, and this is not uniformly popular with some staffers.

Question. I understand that a new 30-minute news program, "America Today" has been recently organized and will be a consistent part of the daily WORLDNET feed. How does this new program reflect ethnic diversity in this country? Are there any women anchors? Are there minority anchors? Are there any

minority on-air reporters? Any black reporters? What about staffers behind the scenes -- writers and such -- are there any minorities there? On the Latin American program, ARNET, are there any women working as on-air reporters? Are there any females who voice on this broadcast?

Answer. The 30-minute "America Today" program is an unvarnished straight-forward daily news broadcast. If the news of America is ethnically diverse, it is reflected in the America Today program. There is no attempt to manipulate that diversity. From its inception, the program has been (and still is) hosted by a two-person anchor team consisting of one male and one female. Elsewhere in WORLDNET transmissions, particularly in the Interactive programs, there are several minority anchors such as Judlyne Lilly and Georges Collinet, who anchor major international programs and several Hispanic on-camera anchors and researches. On ARNET, we have several female Hispanics who do regular reporting and anchoring, and the production assistant on the ARNET Newsfile is an Hispanic woman. On ARNET and EURONET we have a good mix of male and female on-air talent.

Question. I know that government workers on the WORLDNET are given General Service ratings, but contract workers are paid on a discretionary scale. Of the male and female contract workers on WORLDNET staff, please provide a list of salaries to males and females, respectively. Are the anchors, male and female, paid the same? Should employees with comparable skill, doing a similar job, be paid the same?

Answer. Both male and female talent contractors are compensated commensurate with the union scale and the appropriate GS grade. Male and female anchor persons are paid according to their years of professional experience. For instances, Hugh Sidey of TIME magazine and Georgia Ann Geyer of the Los Angeles Times have similar experience --- both are paid $475 for WORLDNET programs. Less experienced persons such as Julie Roberts and James Parisi are paid $150 for WORLDNET participation. Attached is a list of talent vendors and the rates paid for their particular specialty:

EQUAL OPPORTUNITY EMPLOYMENT AT WORLDNET

Talent Vendors, WORLDNET Daily Broadcasts

Name	Gender	Talent	Fee Per Assignment
Sarge Carleton	M	Researcher/Writer/Interviewer	$ 110
Cheryl Irwin	F	Researcher/Writer	100
Frederica Kushner	F	Data Base Manager/Librarian	110
Celinda Pena	F	Researcher	75
Jim Randall	M	Researcher/Writer	130
Patricia Hartwell	F	Assignment Desk/Editor/ Researcher	115.50/d
Tim White	M	Anchorperson	300
Nelson Benton	M	Anchorperson	300
Kathleen Koch	F	Anchorperson	140
Luis Omana	M	Off-Camera Narrator	175
Ann MacFarlane	F	Producer/Assignment Desk	130
John Bos	M	Interviewer Moderator	350 475
James Parisi	M	Writer/Interviewer	150

EQUAL OPPORTUNITY EMPLOYMENT AT WORLDNET

Talent Vendors, WORLDNET Daily Broadcasts

Name	Gender	Talent	Fee Per Assignment
Kathleen Robbins	F	Celebrity Guest Coordinator	$ 500
Julie Roberts	F	Interviewer	150
Jane Stubbs	F	Writer	50/s
Jill Dougherty	F	Reporter/Interviewer/ Writer	150
Judlyne Lilly	F	Moderator	475
Georgia Ann Geyer	F	Moderator	475
Hugh Sidey	M	Moderator	475
Morton Kondracke	M	Moderator	475
Henry Trewhitt	M	Moderator	475
Jose R. D. Leme	M	Moderator	475
Georges Collinet	M	Moderator	475
Miguel Bomar	M	Moderator	475
Frank Stasio	M	Voice/Openings & Closings 5 programs	100
Frank Tavares	M	Voice/Openings & Closings 5 programs	100

NATIONAL ENDOWMENT FOR DEMOCRACY

Mr. Gershman, I appreciate very much your letter of February 23 enclosing the op-ed piece from the New York Times addressing the issue of whether the National Endowment for Democracy was the "public arm" of Project Democracy, as is charged in the Times article.

In your letter, you state that the Mondale/Fahrenkopf op-ed "corrects an earlier Times story that wrongly stated the Endowment was 'the public arm of Project Democracy.'" The earlier article to which you refer quotes an unnamed National Security Council staffer who states that he did not know the Project had an overt arm; Times reporter Joel Brinkley indirectly quotes you as saying that you did not know the Project Democracy had a covert arm. Brinkley quoted you and the NSC in the present tense, as if to imply that Project Democracy was an ongoing matter.

Question. Did you have any knowledge of any program operating after 1982 known as Project Democracy?

Answer. No. The only Project Democracy of which the Endowment was aware was an Administration proposal, submitted to Congress in February 1983, for $65 million to fund a range of programs through the United States Information Agency, the Agency for International Development and the State Department. This proposal was rejected by the Congress. At about the same time (April 1983) there was a congressional initiative to authorize funding for the National Endowment for Democracy. This was approved by Congress and subsequently endorsed by the Administration.

The legislative history was noted in a report by the U.S. General Accounting Office (GAO) which investigated the origins of the Endowment:

> "Two separate legislative proposals resulted from the President's June 1982 speech. First, in February 1983, the Administration introduced legislation to authorize 'Project Democracy,' a program which would fund projects through the United States Information Agency (USIA), AID, and the State Department to support democratic institutions abroad.
>
> Second, in April 1983, a separate bill based on recommendations of the Democracy Program study was introduced to authorize funding for a National Endowment for Democracy...
>
> Because the names of these proposals were similar and they were introduced at about the same time, some confusion resulted."
>
> GAO/NSAID-84-121, July 1984 (emphasis added)

The Congressional Research Service also noted the distinction between the Endowment and the Administration's aborted Project Democracy:

> "Congressional committees drafted new enabling legislation for the plan to create a National Endowment for Democracy. Unlike the USIA portion of the portion of the proposal, the NED concept...found general acceptance in both the House and the Senate."
>
> "Although it was not part of the original Project

> Democracy proposal, NED subsequently gained the support of the Reagan Administration." (CRS Issue Brief, updated September 3, 1985)

The Tower Commission report noted that there was no link between the Endowment and Lt. Col. North's "Project Democracy."

> "We have no information linking the activities described herein as 'Project Democracy' with the National Endowment for Democracy. The latter was created in 1983 by Congress and is funded by legislation. Its purpose is to strengthen democratic institutions around the world through private, non-governmental efforts. NED grew out of an earlier Administration public initiative to promote democracy around the world, which came to be known as 'Project Democracy.' It appears that Lt. Col. North later adopted the term to refer to his own covert operations network. We believe this is the only link between the NED and Lt. Col. North's activities."

It is also important to note the The New York Times, from which the confusion between the NED and Lt. Col. North's "project Democracy" sprung, retracted that implication in an editorial of March 13, 1987, a copy of which follows.

The New York Times, Friday, March 13, 1987

The Good Project Democracy

Lieut. Col. Oliver North borrowed the name of an overt, Congressionally mandated project to bless his own covert activities and thus created a good deal of confusion. In messages about his Iran-contra operations, he repeatedly boasted of their connection to "Project Democracy" or "Prodem," his grandiose term for the privatized war games in Central America. That is also the term used to describe the National Endowment for Democracy, a constructive public initiative to help democratic institutions abroad through private, non-governmental efforts.

What's the link between these Prodems? None, according to the Tower board, which could find no information connecting the covert "Project Democracy" to the above-board Endowment. That finding, alas, can be found only in a footnote.

The confusion has deepened because of similar roots. The so-called Reagan Doctrine, calling for providing aid to anti-Communist guerrilla movements, helped inspire both the Endowment and the covert crusade. Meantime, the confusion has widened because a right-wing outfit calling itself the National Endowment for the Preservation of Liberty is headed by one of Oliver North's chums. Thus language is debased and useful purposes tarnished, to the dismay of serious proponents of open assistance to democratic forces abroad.

The Soviet Union has long provided backstage aid to foreign comrades, and West German political parties have openly helped their third-world counterparts. Created by Congress in 1983, the bona fide National Endowment for Democracy disburses U.S. grants to parties, newspapers, trade unionists and schools around the world. Money flows to four "core grantees": a trade union institute, a unit of the Chamber of Commerce and institutes managed by Republican and Democratic parties. That some foolish grants have slipped through is less noteworthy than the general success of the venture.

The endowment was meant to bury the bad old practice of using the C.I.A. to channel unaccounted-for funds to undisclosed recipients in the name of freedom. The lamentable result of the North confusions is to re-ignite suspicions of sinister American manipulation. The new White House staff can promptly put Project Democracy back on its proper tracks so that there is no confusion about its purposes and activities. What's in a name? Credibility, and this is one form of it well worth restoring.

The Washington Post carried an article on March 14 which stated that a NED grantee, the Institute for North South Issues, was implicated in the Iran-Contra affair. I commend the Board's action in removing grant money from this organization until its role in the affairs is fully known. But I am concerned that sufficient auditing procedures were not undertaken in this and previous instances.

Question. What changes in the auditing procedures of NED grants were implemented after the GAO's May 1986 testimony before the House Foreign Affairs Committee stating that NED did not adequately monitor grants? Were these procedures applied to the INSI? What additional auditing is now being done on discretionary grants in the wake of the suspension of the INSI grant money? As far as you know, what role did the INSI play in the North conspiracy?

Answer. Following the extensive GAO report on the Endowment, several staff members were added to increase our ability to carry out already well established procedures. These procedures include a review of grantee financial and management capabilities performed prior to the execution of a grant agreement, and annual audits and periodic financial reports from grantees, which have always been required. Ongoing reviews of grantee financial management capabilities are carried out by the Endowment's staff auditor, who also has primary responsibility for ensuring grantee compliance with relevant regulations.

As recommended by the GAO Report, the Endowment has devoted greater time and staff resources to the verification of information, programmatic and financial, provided by our grantees. These functions include selected on-site visits, review of actual program products, and confirmation of information contained in grantee financial reports.

The Endowment applies all established procedures regarding the pre- and post-award of grants to INSI. Prior to the award of grants to INSI, the Endowment reviewed standard organizational information on INSI which the Endowment requests from all potential grantees. INSI was found well suited to serve as the U.S. grantee, based on its extensive experience with Caribbean journalism and its previous sub-contracts for USIA's International Visitor program.

The Endowment will continue to carry out the procedures which it has developed over the last four operating years. Of course, the refinement of these procedures is a continuing process, and one which the Endowment Board takes very seriously. In addition, it must take every conceivable precaution -- including alerting potential grantees to the danger of engaging in extraneous activities that could have a negative bearing on the program -- to anticipate all possible problems that may arise in relation to any particular program or organization.

To our knowledge, INSI played no role in the North conspiracy.

Questions Submitted by Senator Rudman

TERRESTRIAL TRANSMISSION COSTS FOR RIAS-TV

Question. USIA is requesting $1.7 million for terrestrial transmission costs for RIAS-TV. The 1987 budget of $12 million for construction cannot be spent until October 1, 1987, or the beginning of FY 1988. Why are operating expenses needed in 1988? When will construction of the new facilities be complete?

Answer. On October 23, 1987, Berlin celebrates the 750th anniversary of its founding. The U.S. Ambassador to the FRG and USIA believe that it is politically important to have RIAS-TV begin transmissions on that date.

However, it will not be possible to complete a permanent facility until well after October 23. To meet our goal, we are currently exploring ways to lease and move into an existing television facility in Berlin. The building currently under consideration will require space modification, minor construction, and installation of technical equipment. All funds for the project (cost estimates are now being developed) will come from the $12 million appropriated for the RIAS-TV project in the Agency's Radio Construction account, and will not be expended until October 1, 1987. Obligation of these funds, however, would begin this fiscal year.

We fully expect to meet our initial broadcast date of October 23. When we do, the funds requested for terrestrial transmission costs will be needed. We will keep the Committee informed of progress on both the temporary arrangement and the permanent facility.

PAN AMERICAN GAMES

Question. During 1987 USIA expended $1,500,000 to support the Pan American Games. Specifically, how were these funds used?

Answer. The grant awarded to the Indiana Sports Corporation in FY 1987 was for $1,435,000 (a reduction from $1,500,000 because of the Gramm-Rudman-Hollings budget reduction legislation). The following chart shows the proposed budget and funds expended through December 31, 1986.

Cost Item	Budget	Expenses thru December 31
Salaries	$104,629	$30,763.16
International & Domestic Travel	716,231	25,350.59
Per Diem	322,820	10,787.97
Sports Conferences	100,125	4,500.00
Administration	191,195	54.83
TOTAL	$1,435,000	$71,456.55

WHY USIA COMMITS SO MUCH OF ITS BUDGET TO WEST EUROPE

Question. USIA has a budget of $215.3 million for its overseas missions, of which $48.2 million is for Western Europe. Given the extensive contact the United States has with this region of the world already, why does USIA commit such a high percentage of its budget in this area to Western Europe?

Answer. The public confrontation between East and West, especially on security issues and arms control, is more intense in Western Europe than anywhere else in the world. Under Gorbachev's leadership, the Soviets are fully committed to exploiting their direct media access to the voting publics of the Western European

democracies to build support for Soviet arms negotiating positions and to undermine the strong psychological component necessary to sustain the NATO alliance. The Soviets are counting on the fact that the generation in Europe that remembers World War II and the Marshall Plan is less active, giving way to men and women in their late thirties and early forties, whose concept of America was formed during the turbulent 1960s. These Europeans, and their children, are critical of U.S. society and skeptical about U.S. leadership abroad. Many believe that the U.S. and Soviet Union are essentially "morally equivalent" Superpowers, dangerously obsessed with each other, at Europe's expense. On trade and economic issues, including technology transfer, West Europeans are increasingly reluctant to compromise their interests with ours in the name of trans-Atlantic unity. This situation deserves and receives attention proportional to the importance this country assigns to Europe's democracies as our major economic and military partners in maintaining stability in the world.

For these reasons, we believe we need on the ground in Western Europe the vital web of ongoing contacts with press and media, opinion-makers, intellectuals and cultural leaders, with universities, and with other relevant private and public institutions that our field operations there nurture and maintain. Fielding effective programs in Western Europe has impact outside the region as well. The ideas about the U.S. and its leadership role generated by the educational and media centers of Western Europe have an effect on how our nation is viewed abroad perhaps second only to that of the American media. Finally, a contributing factor to the proportion of the overseas mission budget going to Western Europe is the fact that infrastructure and operational costs are higher overall in dollar terms in Western Europe than elsewhere in the world.

CLOSING OF THE BRANCH POST IN GRENADA

Question. USIA intends to close its branch post in Grenada. Since there are 26 Americans in Brazil, why not shift one position from Brazil to Grenada? Does USIA not support the goal of the Administration to maintain strong democratic governments in the island nations of the Caribbean?

Answer. USIA strongly supports the Administration's desire to maintain strong democratic governments in the Caribbean region, and provides support to all the smaller English speaking nations of the Eastern Caribbean through its post in Bridgetown, Barbados. The presence of an American officer was essential during the early stages of the newly formed democratic government in Grenada. However, in the 3 1/2 years since the rescue mission, programming needs and opportunities have been determined and contacts established. As a result, USIS officers from Bridgetown can now oversee the Grenada program through their frequent visits. Speakers and cultural events will continue, as will the important exchange programs. Distribution of materials to the island's weekly newspaper, sole radio station, and fledgling TV channel can be effectively carried out by the foreign national employee who will remain attached to the U.S. mission in Grenada.

With respect to Brazil, one American officer position has already been eliminated in Brazil in FY 1987 in order to meet budgetary constraints. That reduction reduced the post's American officer complement from 27 to 26. Brazil is a country of extreme importance to the United States for a multitude of reasons. It is not excessive to have 26 officers there given the importance of the bilateral relationship and the number of branch posts which are required in a country of 140 million which is larger than the continental United States. Further drawdowns in the American

officer profile in Brazil are probable given the Agency's current resource situation. However, these reductions would be to meet budgetary constraints and would not be available for reprogramming.

STAFFING LEVELS

Question. How many foreign national or special contractual personnel are employed by USIA in Russia? What is the assumed budget for these purposes in 1988?

Answer. At the present time, USIA employs no foreign national or special contractual employees at its two posts in the Soviet Union -- the American Embassy in Moscow and the Consulate General in Leningrad. The Soviet nationals employed at the Embassy and the Consulate were all withdrawn by the Soviet government in October 1986. The assumed budget for American special contractual employees for 1988 to assist with press and culture functions is $174,918.

RADIO CONSTRUCTION PRIORITY LISTING

Question. Please provide a priority listing of each radio construction project, along with the 1988 request and the funding necessary to complete each project.

Answer. The priority listing of radio construction projects included in the FY-1988 budget request is as follows:

	PROJECT	FY-1988 REQUEST	ADDITIONAL FUNDS TO COMPLETE
1.	Major Improvements, Replacements and Repairs, and Systems Analysis and Development	10,500,000	(1)
2.	New European - leased time	3,972,000	(2)
3.	Security Enhancements	200,000	400,000
4.	Morocco	20,697,000	110,050,000
5.	Sri Lanka	16,642,000	67,481,000
6.	Thailand	15,878,000	69,039,000
7.	Botswana	7,012,000	33,407,000
8.	Caribbean	15,099,000	5,849,000
		90,000,000	286,226,000

In addition to the above, it is anticipated that a supplemental appropriation request will be submitted when the host country agreements are consummated for the Israel, Greece, and New Far East projects. Because of budgetary restrictions the above listing does not include the Puerto Rico projeect and refurbishment projects in Liberia, the Philippines, Delano, and Greenville which were not included in the FY-1988 request.

(1) Continuing efforts without "completion".
(2) This project requires an annual lease payment to the West German Government. For 1988 - 1992, these payments total $43.7 million as follows: 1988, $3,972,000; 1989, $7,944,000; 1990 - 1992, $10,592,000 each year.

AFGHAN MEDIA PROJECT

Question. USIA intends to spend $650,000 for the Afghan Media Project in 1988. How will these funds be used?

Answer. The funds wil be incorporated in an existing grant to Boston University. Boston University is now engaged in training Afghan refugees through the Afghan Media Project, in accordance with Public Law 99-88. The intention of this Act is to promote the development of an independent Afghan media service, manned by the Afghan people trained in news media and media-related fields.

The amount of funds discussed for 1988 will include provisions for continuation of training programs in print, still photo and video journalism, and will increase the flow of news and information into ernational media. Part of these funds will be earmarked for

FREEZE LEVEL

Question. A modified budget freeze of the USIA Salaries and Expenses account in 1988 would provide $600.3 million in budget authority. If the Agency received this level, what impact would it have on operations? Please provide a detailed impact statement, including specific assumptions on funding levels.

Answer. This would have an extremely harmful effect. We have calculated the absolute minimum requirement for the Salaries and Expenses account, which funds the bulk of the Agency's operations, to be $625.2 million for 1988. This level would only provide for overseas and domestic wage and price increases and mandatory salary and benefit changes, including pay and retirement increases. It is a bare bones level, below current services.

The freeze level would create a $24.9 million shortfall below even this bare bones request. The result would be yet a second year (after the 1987 budget action) of deep program cuts.

Our internal contingency planning process has not reviewed the Agency's 1988 resource situation with this kind of drastic reduction in mind. The 1987 budget cuts were determined by a panel of senior Agency officers meeting over a period of several months. If similar cuts were to be imposed in 1988, we would reconvene this, or a similar, panel. We do know that this level would cause severe reductions in all aspects of Agency operations. It would necessitate the closing of many overseas installations (probably 12-18), reductions in our overseas complement at most other posts, deep cuts in Voice of America broadcasting hours (70-130 hours per week), and deep reductions in most post support activities such as American speakers abroad and the book program. Such cuts would seriously diminish the Agency's effectiveness.

After two decades of erosion in USIA's budget and staff resources, we had begun a long-overdue investment in public diplomacy. This action would negate that investment, and during a period that the Soviets are mounting an increasingly sophisticated public diplomacy campaign. We can ill afford this kind of reduction.

QUESTIONS SUBMITTED ON BEHALF OF SENATOR PETE V. DOMENICI

BIENNIAL BUDGET CYCLE

Calls for budget reform are increasingly heard as budget deadlines are too often missed, important budget decisions are delayed, appropriation bills and other direct spending legislation are held up in committee, and omnibus spending bills take the place of timely and orderly consideration of individual bills. One procedural reform that is being considered is the two-year budget cycle where budget and appropriations matters would be considered in the first year, and authorizations and oversight would be undertaken in the second year.

Question. Would your Agency favor a biennial budget process?

Answer. This depends entirely on the rules under which the process would be established. We would have to see a concrete proposal before we could answer this question. For example:

-- What would be the role of the budget committees? How would the equivalent of the 302(a) and 302(b) allocations be handled? Would targets be set for two year periods?

-- What about the role of the authorizing and oversight committees?

-- How would unforseen resource needs for the second year be handled?

-- How would the Gramm-Rudman-Hollings targets be factored in?

We see a two-year appropriation as only one relatively minor change in a Federal budgeting system that could clearly use a major overhaul. We would reserve judgement until we could see a concrete proposal.

Question. What benefits would your Agency achieve in an two-year appropriation cycle?

Answer. The primary benefit would be an increased ability for Agency managers to plan ahead. Late passage of an appropriations bill -- which, over the past few years, has been the rule rather than the exception -- means that Agency managers do not know what resource level will be available to them for a given planning period until after that period has begun.

Of course, there is also the obvious, and appealing, advantage of reduced time preparing and reviewing budget submissions.

Question. Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

Answer. A casual inspection of our detailed budget documents could lead one to believe that a large proportion of the our budget is repetitive. However, only the sections that deal with the descriptions of how the Agency elements operate are repeated from year to year. Most of the material -- probably 90 percent -- is different.

Question. What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?

Answer. We foresee problems in forecasting resource needs over a two-year period, a task that is especially difficult in a foreign

affairs agency. Even under the current annual budgetary process, we find that factors such as exchange rate changes make accurate calculation of our needs difficult. Add to these factors the need for the Agency to remain flexible in the face of a constantly changing international environment -- which we think is essential -- and the task is magnified.

Question. If you oppose the biennial budget concept, please give this subcommittee the reasons why.

Answer. As stated above, we can see advantages and disadvantages to this idea. We would reserve judgement until we could see a specific proposal.

SUBCOMMITTEE RECESS

Senator LAUTENBERG. As far as the subcommittee is concerned, we stand in recess for a little while until Senator Hollings gets here. We thank you very much for your presentation.

[Whereupon, at 11:10 a.m., Wednesday, March 18, the subcommittee was recessed to reconvene at the call of the Chair.]

[CLERK'S NOTE: It was subsequently announced that the Subcommittee had adjourned until March 25, 1987 at 10:00 a.m.]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

WEDNESDAY, MARCH 25, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:30 a.m., in room S–146, the Capital, Hon. Ernest F. Hollings (chairman) presiding.

Present: Senators Hollings, Inouye, Bumpers, Chiles, Lautenberg, Sasser, Rudman, Stevens, Weicker, Hatfield, and Kasten.

DEPARTMENT OF STATE

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

ACCOMPANIED BY RONALD I. SPIERS, UNDER SECRETARY FOR MANAGEMENT

SUBCOMMITTEE RECESS INTO CLOSED SESSION

Senator HOLLINGS. The subcommittee will come to order. I move that we go into closed session to discuss certain classified matters with the Secretary.

Senator WEICKER. I second the motion.

Senator HOLLINGS. Without objection, So ordered.

[The subcommittee went into closed session]

OPEN SESSION

PREPARED STATEMENT

Senator HOLLINGS. The subcommittee will be in order. We will now continue in open session.

Mr. Secretary, we have a vote at 12:15, so you will be able to leave.

Let's include your prepared statement in its entirety in the record, and have you highlight and comment on what you think we ought to hear. We have been asking all the questions, let's listen to you now.

Secretary SHULTZ. I appreciate this opportunity, and I would take as much of your time as you will give me to tell you about the overall 150 budget, and then in particular the State Department budget.

I will file this for the record, and I will just make a few comments.

[The prepared statement of Secretary Shultz follows:]

PREPARED STATEMENT OF

GEORGE P. SHULTZ

Secretary of State

I am here today to discuss the President's 1988 appropriations request for the Department of State.

Mr Chairman, let me preface my remarks by acknowledging the work and dedication you and the members of your committee have provided the Department.

However, I must convey to you my deep concern about a major foreign policy crisis we are in danger of creating for ourselves. It is the danger threatening many of the foreign policy gains we have made -- the danger of rapidly diminishing resources committed to international affairs.

The fact is, we cannot remain a first-class world power by committing fewer resources to our foreign relations than our adversaries. Nor can we maintain our political, economic and humanitarian values in a dynamic and threatening world environment through the strength of our military power alone. We must maintain our capacity to understand and influence developments affecting our interests in a complex international arena. It is that capacity which is today in question.

As we face the third consecutive year of sharp cuts in our foreign affairs budget, I am concerned that the U.S. -- through a series of reductions in people, facilities and programs

overseas -- is mindlessly creating for itself a strategy of retreat. This budget crisis is perhaps the most urgent -- and least recognized --foreign policy challenge facing our nation today.

I think all Americans can agree on the broad goals of our foreign policy and on the necessity of a dedicated core of foreign affairs professionals to provide them. Put simply, these goals are to protect our national security, to promote our domestic prosperity, to foster democratic values, to advance our humanitarian ideals, to combat narcotics trafficking and to thwart terrorism.

Over the last six years, this Administration has worked hard toward these objectives. We have made substantial progress toward reinvigorating our economy, restoring our military strength, and strengthening our ties with allies in Europe, Asia, Latin America and elsewhere. This has involved a lot of unspectacular but vital spadework -- day-by-day management of our policies by the men and women of the foreign affairs agencies.

As a result of these efforts, on behalf of President Reagan's policies, our European alliance is strong and vital. In NATO, American efforts to advance peace and progress abroad have been buttressed by a new sense of vitality and common purpose. We have also built a network of strong ties in Asia--relationships that will be crucial to global prosperity and regional security well into the next century.

Through firmness and realism, we have embarked on a new

high-level dialogue with the Soviet Union -- not just on arms control, but on the full agenda of issues that divide us. And for the first time in history, we now have the prospect of negotiating substantial reductions in the nuclear arsenals of both sides.

In the developing world, we have worked to support a remarkable surge toward democracy, most notably in Latin America, where the percentage of the population living under freely elected governments has grown from 30% in 1979 to more than 90% today. Democracy has also made great strides in the Philippines, in the Caribbean, and throughout the Third World. More and more people seem willing to resist authoritarian or military governments and the yoke of totalitarian oppressors; they seek and deserve our understanding and support.

We have also seen an encouraging trend toward greater confidence in free market-oriented solutions to the problems of economic growth. We now find, almost everywhere in the world, movements to decentralize, deregulate and denationalize. At the UN Special Session on Africa last May, the African nations committed themselves to more open markets and less state intervention. Even in the communist world, reforms in China demonstrate a growing recognition that entrepreneurial initiative in a market environment is the engine of development and growth.

All of this represents important progress. But there is still much to be done. Precisely because foreign affairs issues do not lend themselves to quick fixes, Americans have to be prepared to tackle them on a steady, long-term basis and to

support consistently the professional foreign affairs infrastructure to do so. Yet just as we should be consolidating and building upon our recent gains, we stand on the threshold of a major reversal brought about by penny-wise, pound-foolish budget decisions.

In 1987, The President's budget request for State Department operations was cut by $1.3 billion: The effect of this cut has been exacerbated by overseas inflation and exchange-rate losses which have reduced our purchasing power by another $76 million.

We cannot continue this downward spiral and not expect to see a fundamental weakening of our Nation's foreign policy apparatus. We are keenly aware of the part we must play in the President's and Congress's efforts to reduce the federal budget deficit. We are doing our part. We have made deep cuts to keep within our tight budgets. However, we are now cutting into bone.

In 1986, we shut down seven of our consulates overseas. This year, we will close seven more posts. This is not something we welcome. Our posts are the capillaries of our information-gathering network. They enhance our ability to expand our contacts and influence, to provide service to Americans abroad, and to enhance U.S. economic prospects. If we have no relief, our budget situation will force us to continue to shrink even further our Nation's diplomatic and consular presence around the world.

This year, we will also no longer be able to fund

adequately our language programs at posts overseas. And this at a time when we are all convinced that it is increasingly important to improve our foreign service officers' language capabilities.

We are also taking deep cuts elsewhere to make ends meet. We are hiring fewer people and simply not filling vacancies. Particularly painful has been the need to cut our incoming foreign service officer classes. The cost of this will be felt ten years down the line. We have had to postpone security construction projects as well as cut our plans for high-speed telecommunications circuits by half and cancel 85 percent of our planned replacement of emergency radio systems worldwide.

We are reaching the point at which these actions necessitaied by budget cuts will threaten our ability to maintain a professional foreign affairs infrastructure. This infrastructure was not built overnight and damage done to it will not be repaired rapidly.

When our funds are cut, we are left with very few options. We are a salaries-and-expenses agency. We are our Nation's diplomatic presence around the world. We do not have large programs which we can cut or string out over a longer period. The Department of State, which is the oldest and surely one of the most important departments of the government, is also one of the smallest. The the State Department's operations at home and abroad cost only four-tenths of one percent of the federal budget.

We have requested a FY87 supplemental of $119 million to

help us carry out our most critical programs over the next yea: until FY88. These funds, if approved, would help us ensure that the basic foreign policy infrastructure is maintained by the State Department.

But we all remain concerned that funding at the levels currently in prospect, especially when combined with adverse developments such as exchange rate losses, will translate into a serious weakening of the Department of State, our nation's institutional arm for the conduct of foreign policy. Unfortunately, rather than determining foreign policy goals and objectives that are best for the the United States and providing the financing necessary to achieve these goals, we are letting resources constrict our foreign policy.

If we are to continue our role as a world power, we must be prepared to fund a foreign affairs policy and a budget for operations of the size and dimension to support it. Be assured that friend and foe alike will draw their own conclusion about our role in the world -- and these conclusions will be influenced by what we are doing to our diplomatic process abroad.

For 1988, the Department is requesting appropriations totaling $3.295,318,000. The 1988 budget request covers the following four categories of appropriations:

First, we request $2,737,141,000 for the heart of our nation's diplomacy, the Administration of Foreign Affairs -- to cover the Department's basic diplomatic and consular functions,

salaries, operating expenses, allowances, overseas building construction and maintenance, and diplomatic security.

Our request is a $520.4 million net increase from the 1987 level, nearly all of which is for nondiscretionary costs and security, and has the following components:

-- $250 million for Salaries and Expenses, $51.8 million of which is for the implementation of the new Federal Employees Retirement System, $62.7 million for wage and price inflation and $104.7 for the Diplomatic Security Program.

-- $310 million for Acquisition and Maintenance of Buildings Abroad, of which $211 million is for the Diplomatic Security Program.

-- Savings of $41.4 million reflecting a reduction in the Foreign Service Retirement and Disability Fund.

As the Congress considers this proposal, I would emphasize again to Members that we have suffered severe cuts in funding to support the foreign affairs infrastructure of the United States. These cuts have been compounded by the effects of fluctuations in exchange rates, differing rates of inflation between the U.S. and the countries in which we maintain missions, and the continuing need for expenditures to enhance the security of our posts and personnel abroad. These factors in combination have led to a weakening of our infrastructure. The toll has been greater than one might have expected since

discretionary spending is only a small portion of the total foreign operations budget, for when we were forced to make cuts, they had to be made in "discretionary" areas. These turn out to be areas where cuts can undermine the ability of the foreign affairs establishment to function as it was intended; for example, in travel for consultation and investigation, and language training. This has resulted in closed posts, elimination of positions, reduction of intake into the Foreign Service and deferral of needed maintenance projects. The damage could be even worse in years to come.

At stake is our ability as a nation to understand and influence the world we live in. It is in no one's interest to make the State Department primarily an administrative support mechanism for the foreign-based staff of other Federal agencies, thereby weakening the agency which coordinates and takes into account all U.S. Government activities abroad and all interests of the United States. We cannot cut away personnel and positions and reduce training and the tools necessary to perform diplomatic functions and still retain the corps of qualified and experienced people needed to carry out the diplomacy of the United States. We risk having other nations interpret our cutbacks as signs of an American withdrawal from an active, cooperative global role.

Second, in the category International Organizations and Conferences, the Department requests $506 million and additional authorization as may be necessary to cover assessed contributions to international organizations of which the United States is a member; contributions for United Nations

peacekeeping activities; and American participation in multilateral international conferences.

Third, under the heading of International Commissions, $32,706,000 is requested to meet our treaty commitments under boundary agreements with Canada and Mexico -- and to cover our share of expenses as a member of eleven international fisheries commissions.

Finally, in the "Other Appropriations" category, we are requesting $19,471,000. Included in this category are resources for Bilateral Science and Technology Agreements with Yugoslavia, the Asia Foundation, the Soviet-East European Research Training Fund, the Fishermen's Protective Fund and Fishermen's Guaranty Fund.

Let me turn to some specifics. My purpose here is to move from the broad level to a more focussed one, by inviting your attention to some of our most prominent -- and controversial -- programs. While we fully understand the dilemma the Congress faces under current budgeting limitations, we have presented a budget request that reflects those limitations. I think it is my responsibility to try to drive home some realities of our efforts abroad, which are currently in serious jeopardy.

DIPLOMATIC SECURITY

Last summer the Congress passed and the President signed the Omnibus Diplomatic Security and Anti-Terrorism Act of 1986. This landmark legislation, which resulted from careful crafting by the Congress, gave us a major start on the

authority and resources necessary to implement the recommendations of the Advisory Panel on Overseas Security chaired by Admiral Bobby Inman.

This legislation authorized $2.4 billion to launch a worldwide diplomatic security effort. Consequently, we have begun a multi-year program to replace and upgrade facilities at our most vulnerable posts overseas. The Inman Panel found that buildings at 134 of our 263 posts were substantially below minimum security standards. This led to our joint commitment to begin the most extensive construction program in the Department's history. To complement that, we also have upgraded security at many of our most threatened posts. We have installed specially designed walls and gates at 74 posts where they were especially necessary, and have made major security improvements at 107 other posts. And, we have initiated steps to strengthen our ability to defend against the increasingly sophisticated efforts of hostile intelligence agencies.

With the programs to provide for the most urgent security needs of our people abroad initially funded and under way, we are now shifting the focus of our efforts toward programs which will enhance our technical security posture.

When added to on-going requirements of $157.3 million and 536 positions, these program increases result in a total 1988 diplomatic security budget request of $231.7 million and 794 positions. But, this is a vital program and I believe both the Congress and the Executive Branch want to provide the resources to take these needed steps.

FOREIGN BUILDINGS

In an area which is closely related, let me now turn to our construction program.

As we all know, there has been criticism of the past performance of the Office of Foreign Buildings. Some was absolutely justified. However, in the past three years we have done much to improve FBO's management and procedures.

In recent years, FBO successfully completed six major construction projects and, in particular, in the last eighteen months, there have been major improvements in FBO's leadership management systems and in the quality of its personnel. FBO has moved successfully from managing an average of four or five large projects a year to managing a current program of sixty-one major projects and several hundred small ones.

CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

Armed with the clear requirements of Congressional action, we succeeded last December in having the United Nations take what the President has described as "an historic step to adopt sweeping reforms of its organization and methods of operation...designed to strengthen the organization's effectiveness and efficiency in carrying out its important political, economic and social objectives." To follow through on these important reforms and to extend them to the Specialized Agencies, we need the continued active support of the Congress.

As the result of a U.S.-led reform effort, the UN General Assembly established a consensus-based procedure for decisions on the overall size and program priorities of the UN budget. The United States and other major contributors now have the possibility for greatly increased influence over the management of UN resources. Properly used, this will have a significant and positive impact on the overall work of the United Nations and of our ability to pursue our interests there.

Follow through on the reforms achieved in New York requires modification of the Kassebaum/Solomon Amendment (Section 143 of P.L. 99-93) to take account of these reforms, as included in the Departments FY 1988-89 Authorization Request. This modification would authorize such additional sums as may be necessary to restore US assessed contributions to their proper level in CY 1987-88.

This significant accomplishment in UN reform resulted from six years of serious effort by the Executive Branch, working in concert with the Congress. Continuation of this combined effort is necessary at this critical stage in order to take advantage of the possibility we now have for effectively achieving important U. S. interests through our strengthened participation in the UN and other international organizations.

Our membership and active participation in international organizations benefit us in many ways. They provide permanent forums in which we seek support for our policies, our interests and our values, as well as to pursue multilateral programs which advance those interests. They provide a means of settling disputes peacefully, furthering human rights and

promoting cooperation in development assistance, agriculture, technology, health and transportation.

CONSULAR OPERATIONS

Perhaps the most visible casualty to American citizens, our constituents, of budget reductions is the quality of our consular operations both at home and abroad. Without adequate resources to hire temporary help, the Department will not be able to issue passports, or nonimmigrant visas as rapidly as we now do. Because there are peak seasons in both categories, over the years, the Department has made a conscious management decision to hire only that permanent staff needed to process normal demand. To do otherwise would not be a judicious use of our limited resources. To meet the peak season demands we have relied solely on temporary personnel to carry us through without creating enormous backlogs. Without these temporary personnel, we can expect many angry complaints when citizens or aliens have to wait for our services.

Another seriously affected service will be our ability to visit American prisoners. During 1986, 2,827 Americans were reported arrested in 101 countries. 1,369 of these Americans were jailed, the majority of them in developing nations. We believe frequent visits are necessary to assist with widely-variant judicial systems, sluggish bureaucracies, culture shock and health problems. Unfortunately, we simply do not have the travel money at a number of posts to be able to maintain the current schedule of visits where American citizens are incarcerated in prisons which require any long-distance travelling.

Finally, until we know the fate of our supplemental requests, we have to worry about how we fund the substantial costs associated with implementation of the Immigration Reform and Control Act of 1986.

My colleagues and I recognize that we will not get very far without the cooperation of Congress. We are committed to work with Congress. We welcome your close scrutiny of our budget proposals.

BUDGET AND SUPPLEMENTAL REQUEST

Secretary SHULTZ. We have been cut in terms of appropriated levels in function 150, from about $23 billion in fiscal year 1985 to $19 billion in fiscal year 1986 to $17.3 billion in the fiscal year we are now in. We have a supplemental out, as you know. In addition to the cuts represented by those numbers, there has been, fortunately, moderate inflation, but some inflation, so the real dollars exaggerate that.

Second, we have in here a series of some accounts that don't change. They don't go down. So there is a block that flows through this declining overall number. I am not complaining about that block, I am for the appropriations that are represented there. But what it means is that when people, in a budget frame of mind, lop off the top, you are squeezing everything except those that are relatively fixed, double or triple whammy.

Then, of course, the currency devaluation, which has gone on, and I am basically not arguing with that, nevertheless from our standpoint, we say to Ambassador Mansfield, here is $1,000, but the $1,000 doesn't go very far compared to the way it went 2 years ago. So you have a quadruple whammy on these numbers.

The result is that whether we are talking about security assistance, and our base rights countries, where we are falling way below what people can properly expect; whether we are talking about things that we do that will help our own prosperity, our stake in a prosperous world; whether we are talking about things that contribute to our values and their spread around the world, which is very much in our interest; whether we are talking about our efforts against terrorism or against drugs; all of these things are being clipped.

As far as the State Department is concerned, we had an exchange on the Inman Panel recommendations. That is going slower than we think it should go, and that holds for the counterintelligence, as well as the physical security aspects of this.

Our effort to increase the proportion and the numbers of people doing reporting and analysis, sort of the basic functions of the State Department, that is not going as strongly as it should.

We have to do all kinds of little things to try to fit ourselves within this budget. You know we have closed posts. There are statutes proposed that tell us that we can't close posts. It is all right to tell us that we can't close posts, but if you don't give us the money, we can't run them, because it takes people, and you have to pay people. We are an agency that is mostly people.

Senator RUDMAN. Sitting here, I will have to say, and I am sure that it has gone through the chairman's mind, you certainly did not fare well under my tenure over this subcommittee, I would have to say. You are probably glad to see Senator Hollings back.

Secretary SHULTZ. I like you both, and I would like some help from both of you.

We are doing things, just to take another example that do not make any sense, such as having to curtail the amount of foreign language training that we give at post. We all know that it is important for people to be able to speak the language, or at least get along as best they can. This has been an important program. We are having to curtail it.

I could just go on down the line. We believe that it is essential that we not get clipped again. The President has proposed a budget that is less than we got in fiscal year 1985 for the overall 150 Account. We need it for our security.

PHILIPPINES

In the Philippines, important changes have occurred. What is Mrs. Aquino inheriting? She inherits a vicious, on-going Communist insurgency. So what does she have to do?

She, I think, thoughtfully and pretty skillfully, has gone through a long period of negotiation, amnesty, and so forth, while she tries to inject a more professional attitude into the military and get them trained so that they can give a good account of themselves. I hope that they are able to do that now.

However, what did we do? We had to drop our security assistance support for her in half. We cut $50 million out of it just when she needs it. In the supplemental, we have asked for that back, and that is one of the few things that the House Subcommittee put back in. That is an example, and that is for another committee.

I feel that we have been cut, cut, cut too much, and it is not in the interest of the United States to do it again.

REVENUE PROGRAM PROPOSAL

Senator HOLLINGS. Mr. Secretary, let me bring a little understanding, because you are desperate and you should be, and I understand it, but I am desperate too.

What has really occurred is that we have gone through a 5-year exercise or shakedown trying to draw in on the size of government, and the budget deficit. Now we come to the President's budget, which you referred to, and there he, the best of all spender-cutters, if that is how you want to characterize him, on page 2-54, you will find when you add them all up, that out of the trillion dollars, he submits $18.7 billion

to cut. That is the best of the best cutting the budget. If that is all he can find to recommend to the Congress to be cut, you and I know that we need revenue.

My ranking colleague and I had a long discourse with the Senator from Texas, Phil Gramm, and we included revenues, because I feel the desperation and the need for revenues. I feel that we should pay for it. So revenues are included in Gramm-Rudman-Hollings. As a result, I will submit a revenue program of some kind to take up that slack. I think that we can get cut even more than $18.7 billion.

There are $23 billion, maybe $25 billion, in cuts, that I would include. While I am giving those cuts, I provide for some increases in research, and in education. Then, of course, it is bound to go up due to the forced-feeding of our defense budget, whereby the budget authority forces the outlays of certain amounts of at least inflationary costs in the 050 function.

I am with you. I am in step. I am not sitting just trying to find out where I can cut a little bit here, and a little bit there, and make your task miserable. What makes it altogether miserable is not facing it realistically, understanding that we don't have a deficit with just a $108 billion target. We have been like a chicken drawing a line in the sand, saying: How can we get to $108 billion from $136 billion.

Even if Gramm-Rudman-Hollings works, you will add another half trillion on to the deficit.

Senator RUDMAN. Would the chairman yield?

THE DEBT AND THE DEFICIT

Senator HOLLINGS. Just a minute, Mr. Secretary, you are the economist, and I am trying to get rid of the debt as well as the deficit.

I expect to be around awhile longer. I don't expect to be around just 1 year or 2 years, but I expect to be around for 6 years. I don't want to just pennypinch this year, and come and face the same dilemma next year, and pennypinch some more. I have been doing that for 5 years running.

I want a consummate program to really get that debt down, and get the interest costs down that are approximately $208 billion this year. When I sit around the budget table, I can give you $100 million for cancer research, highways, bridges, and everything else. We are spinning off a couple of hundred million just for our past waste and wrong philosophy. We are going to cut the government, cut the government, and cut the government.

Your testimony is not only of desperation, but of eloquence. I think that you have stated it clearly. We have these needs, the security interests, as well as the foreign policy interests, and I support you, if I get the revenues. I will be submitting it, and I will not be hardheaded about it. I will adapt, and adjust, and be as flexible as the next Senator to try to work it out. We have done it with Gramm-Rudman-Hollings for years.

Excuse me, do you have a question?

BREAKDOWN OF THE FEDERAL EXPENDITURE

Senator RUDMAN. I don't have a question. I was going to try to supplement what you said, because I just would say to the Secretary that I was scribbling some numbers here as we were talking, and we went over this last year when I had to very painfully look you in the eye and say: I don't know how we are going to do this. You are right, and we agree with you, but how are we going to do it?

I just want to review the numbers again for the record of this year's $1 trillion Federal expenditure, 48 percent of it will be entitlements, 27 percent will be defense, 12 percent will be interest, for a total of 87 percent. Everything else that we call government, from alpha to omega, and everything in-between, is 13 percent, of which the State Department is a grain of sand.

Yet, with all the pressure in the budget submission we have before us—and I say this as a loyal Republican, Mr. Secretary, and certainly a strong supporter of this President, as strong as anybody here on most things—the fact is that you can't get there from here. You can't pinch this 13 percent, so you have to cut that defense budget of 27 percent, which I am not willing to do right now. We have to find the money some place.

Senator BUMPERS. I agree with my colleague.

Senator HOLLINGS. Senator Kasten.

STATE DEPARTMENT'S PERCENTAGE OF OVERALL BUDGET

Senator KASTEN. Mr. Chairman, I just wanted to associate myself with a part of the views that Senator Rudman just stated. What we are talking about here is a very small part of the overall budget, when you look at the State, Justice, and Commerce budget. The idea that this one small part has to take, in effect, the only real decrease for 3 years in a row, I think is just not sensible.

We have had tax debates, and we will continue to have them. We have had Gramm-Rudman-Hollings debates, and we will continue to have them. We have all the other debates, but the fact is that because this particular area is vulnerable politically, we have just been irresponsible. I think the House has been even more irresponsible than we have been.

In the subcommittee that Senator Inouye Chairs, and that I Chaired for 6 years, we tried to come up with responsible numbers within the budget. But I think that we have a responsibility yet to deal with the budget problems, the tax problems, the Gramm-Rudman-Hollings marks, et cetera.

We simply cannot stand up and say that we are going to be continually be irresponsible demagogues on this area of security assistance, economic assistance, and embassies, and the kinds of things that we are doing today.

We simply have to say, yes, these other debates are going to go on, and they are important, but we think that we can't afford to do what we have done for the last couple of years, and then say that it is because of these other debates, which are going to go on whether the State Department's budget is at $17, $18, $19, $20, or $21 billion. That is not going to solve that overall problem.

We have to recognize that that overall problem is there, but that a couple of billion dollars one way or the other here are not going to solve that problem. It just becomes the political nub that everybody aims for, and we have been aiming for it for too long. I think that we will be doing a real disservice if once more in the budget committees, we come out with numbers that once more are irresponsible in this particular area.

Those other debates are not going to be solved whether we get the request or not. That is a whole separate issue.

Senator HOLLINGS. Senator Lautenberg.

NEED FOR GENERAL CHANGES

Senator LAUTENBERG. Mr. Secretary, I speak for this Democrat, this American, to tell you that I am one of those who can be counted as a fan or a member of the fan club of George Shultz. I admire your integrity, your insistence on getting the job done. I am a little concerned about the position that you have been placed in on policy matters of how we deal with terrorism.

I would say, Mr. Secretary, I have seen you in other roles. As a matter of fact, when we first met, you had a selling job on your hands, and I would not have wanted to carry the message, but I think that you have to carry it.

We are not going to get the financing for this particular phase of government, which I couldn't agree more is necessary for us to maintain our leadership around the globe. Leadership is never achieved in a single day or a single moment. It takes time to build it. It takes structure to build it. It takes stability.

It takes talented and motivated people, and how the heck are you going to have that if everybody is worried about they are going to be terminated or be shifted to a post which they are not ready to take over.

We have sitting here four members of the Budget Committee, as well as other members of this subcommittee and the full committee. We are approaching a fantasy line. We cannot meet the budget targets no matter how brilliant we design them, without some changes.

We are not going to get funds for the State Department budget when we are looking at reduction in farm subsidies, transportation subsidies, and so forth. The decision has to be made first as to whether or not there is going to be any pie around at all before we start dividing it.

I think that the plea that you made this morning was logical and justified. It is not going to wash in my view, unless we do something about the major budgetary problems. You, as a Member of the Cabinet,

perhaps the most important job there, as I see it, have quite a selling job over there on Pennsylvania Avenue. Frankly, the prospect is dim that you will get the resources to do the job that you have to do if things don't change generally.

I have three areas of questioning, which I will submit to the Secretary for response in writing. I would like to have one on the record.

AMERICAN PRESENCE IN LEBANON

Do you have any idea how many Americans there are presently in Lebanon?

Secretary SHULTZ. I would like to give a precise answer for the record. We have a limited number in our embassy. I think it is 47, and that includes all of the security people. We have tried to keep very careful track of TDY, and so on.

We have told Americans repeatedly that we think they should leave, and that they are really in a dangerous place, and the government has no real way to look after them. Most of the Americans that don't have a Lebanese direct connection of some kind have left. I think that there are very few who remain.

There are, however, around 2,000, I guess, who are dual-citizens, who are Lebanese Americans, and who are in a somewhat different category, and they are there. They haven't left.

[The information follows:]

NUMBER OF AMERICANS IN LEBANON

We estimate that 1,000–1,500 American citizens remain in Lebanon, nearly all of them Americans of Lebanese origin. We believe many American citizens left Lebanon after the restriction against the use of American passports for travel to or in Lebanon was imposed. We do not have an exact count. The travel of Embassy officers is severely circumscribed, and they are therefore unable to make an exact survey of Americans still in Lebanon. Those Americans who departed were not obliged to notify our Embassy that they were leaving. Similarly, we believe many of those Americans still in Lebanon—a number of whom are spouses of Lebanese nationals, or minor children of Lebanese parents—may not have registered with our Embassy.

SITUATION IN LIBYA

Senator LAUTENBERG. They are there at their own risk?

Secretary SHULTZ. We have told them that. And this is a message that has been delivered over a decade. We delivered it as forcefully as we could in terms of our most recent decision having to do with the fact that the passport isn't useful there. We cannot order an American citizen to get out. We don't have any power to do that. But we can say that the passport can't be used in that case.

In the case of Libya, we invoked the International Emergency Economic Powers Act [IEEPA] under which we barred economic transactions by U.S. persons with or in Libya. Unless specifically licensed—as we have done in the case of immediate family members of Libyan Nationals—financial transactions by U.S. persons in Libya are illegal. So, obviously, if somebody lives there and he goes to the grocery store, or she does, that person is undertaking a transaction. This is the best that we could do there, and that did have an effect.

Senator LAUTENBERG. This is justified by the value of maintaining our presence there, and if we gave way to terrorism, we would give way to all kinds of problems in the world. All we need is to shut down the airport.

Secretary SHULTZ. The airport is, in effect, shut down by the good old marketplace. The insurance companies won't issue insurance on your airplane if it goes there, so the traffic is way, way down.

SUBMISSION OF QUESTIONS

Senator HOLLINGS. We have another important witness, the Director of our Arms Control and Disarmament Agency, Mr. Secretary. I am going to submit the balance of our questions, we have quite a few. We will study your responses, and then we will have to get back in touch with each other, because I want to work with you on the budget. I know that Senator Rudman and other Senators do also.

Secretary SHULTZ. I have said one thing as hard as I can all over the country and here on this subject.

Senator RUDMAN. It is all going to work out this year, Mr. Secretary, and there are going to be a lot of discussions.

Senator HOLLINGS. Thank you very much, Mr. Secretary.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

OVERSEAS STAFFING

Question:

How many Americans did we have posted overseas in 1981 and how many of them were State employees? How does the staffing now compare both as to the total and the State component?

Answer:

As of December 31, 1980, there were 13,812 U.S. Government American employees overseas under the authority of Chiefs of Diplomatic Mission. Of these, 5,483 or 39.6% were State employees. As of December 1985, the number of U.S. Government American employees overseas had risen to 16,432, of which 6,261 or 38.1 percent were State personnel.

While we have completed the compilation of similar statistics, as of December 31, 1986, for USG civilian employment including the Department of State, we are still in the process of collecting the data on Department of Defense elements under the authority of a Chief of Mission. These data are more difficult to compile as we have been unable to locate an authoritative source in the Department of Defense and must collect the information directly from our missions.

As of December 31, 1980, there were 9,656 U.S. Government civilian agency American employees overseas under the authority of Chiefs of Diplomatic Mission (including 5,483 State personnel). As of December 1986, the number of U.S. Government civilian agency American employees overseas had risen to 10,766, of which 6,363 were State personnel.

Question:

Last year you said the President had approved reducing the number of personnel overseas. That certainly would help with security. How successful were you in reducing our presence overseas? For instance, was a report made to the President in July?

Answer:

The Secretary of State reported to the President in July on the initial results of the 1986 Overseas Presence Staffing Review. The review resulted in agreement to reduce or relocate approximately 700 positions, or 4.1% of the total authorized American staffing levels in diplomatic missions overseas (1,500 positions or 8.3% if Defense drawdowns in Saudi Arabia are included); most reductions will occur during the 1987 summer rotation cycle. Low priority jobs will be eliminated, although some cuts will be offset by increases in high priority programs such as security and law enforcement activities. Collectively, agencies accepted about one-third of Chief of Mission proposals.

VATICAN

Question:

When Ambassador Wilson was at the Vatican he was supplied with a security detail because of his relationship with the President. Am I correct that this was terminated with his departure?

Answer:

Yes - This is true. Ambassador Wilson was supplied with a security detail consisting of 2 DS Security Officers and 1 supervisory RSO assigned to Amembassy Vatican. The incumbent Ambassador (Shakespeare), and successor to Wilson, has an all Italian detail consisting of Carabinieri police. It was determined that Shakespeare projected a lower profile and did not require a detail afforded by DS personnel.

Question:

I would have thought that the extraordinary security that accompanied Ambassador Wilson would have taken care of the usual security needs of this post. Why is it that we are still spending $8,500 for alarm units and closed circuit television for the Ambassador's residence?

Answer:

RSO Rome still considers Ambassador Shakespeare vulnerable. His residence is located in an old villa with extensive grounds. Because the residential complex is so large, it is too big to monitor and adequately afford security coverage unless alarms and CCTV coverage are used. Current camera equipment is not very effective, old and in need of replacement. In addition, the complex is surrounded by public streets making the need for this equipment essential.

Question:

The Local Guard Program at the Vatican costs $615,000 this year. We only have 6 Americans there so that is more than $100,000 each. Does that not seem out of line?

Answer:

The American Embassy Vatican has a local guard force of 18 guards with an annualized cost of $615,000. The guard force consists of two (2) guard posts at the front gate, each a 12-hour shift, from 0800 to 2000 hours and one (1) guard for a 12-hour shift from 2000 to 0800 hours. There is one (1) guard post in the reception area from 0900 to 1700 hours. There are two (2) guard posts at the Ambassador's residence with two (2) guards on each eight-hour shift 24 hours a day. The Deputy Chief of Mission (DCM) residence has one (1) guard post with one (1) guard on eight-hour shifts 24 hours a day. In addition, there are two (2) driver/guards, one (1) for the Ambassador on a 12-hour shift and one (1) for the DCM, also on a 12-hour shift.

It should be pointed out that Italy has been the target of many acts of terrorism in the last several years, including the assassination of Leamon Hunt, Director-General of the Multinational Force and Observer in the Sinai; the mass killing at the Rome airport; and there have been

assassination threats by Libyan terrorists against the U.S. Ambassador to Italy. This atmosphere naturally leads to increased security concerns and countermeasures for American Embassy personnel and installations.

In light of the terrorist threat in Italy, the security measures for the Vatican Embassy and Ambassador are expensive but not excessive.

Question:

Please supply a listing of the costs of the local guard program at each post that includes the number of Americans and FSNs at each post.

Answer:

The following tables reflect this information.

RECAP LGP STATISTICS BY BUREAU
FY-1987

BUREAU	NO GUARDS		FUNDS	AUTH POSITIONS		AUTH PSC
	STATE	OGA	FY-87 FSP	AMERICAN	FSN	GUARDS
AF	4,238	2,537	13,245	2,324	2,371	369
ARA	2,431	762	16,807	3,458.	3,688	37
EAP	1,068	397	4,579	2,822	3,690	301
EUR	1,173	113	26,474	5,504	5,417	70
NEA	2,487	1,843	14,205	2,799	3,781	805
IO	48	2	1,759	0	0	0
TOTALS	11,445	5,654	77,069	16,907	18,947	1,582

LOCAL GUARD PROGRAM STATISTICS BY BUREAU
FY-1987
AF

COUNTRY	POST	NO GUARDS STATE	NO GUARDS OGA	FUNDS FY-87 FBP	AUTH POSITIONS AMERICAN	AUTH POSITIONS FSN	AUTH PSC GUARDS
BENIN	COTONOU	90	13	28	11	20	90
BOTSWANA	GABORONE	36	125	125	47	35	0
BURKINA FASO	OUAGADOUGOU	67	51	162	39	66	74
BURUNDI	BUJUMBURA	90	40	199	35	32	0
CAMEROON	YAOUNDE	120	163	552	80	95	0
CAPE VERDE	PRAIA	49	0	64	7	9	48
CENTRAL AF REP	BANGUI	85	11	136	14	21	0
CHAD	NDJAMENA	91	70	264	39	12	0
COMOROS	MORONI	20	0	19	4	0	0
CONGO	BRAZZAVILLE	73	28	178	20	15	95
DJIBOUTI	DJIBOUTI	62	4	381	23	14	0
EQUATORIAL GUIN	MALABO	27	0	57	5	5	0
ETHIOPIA	ADDIS ABABA	62	7	128	31	40	62
GABON	LIBREVILLE	14	0	161	24	26	0
GAMBIA	BANJUI	69	18	96	16	18	0
GHANA	ACCRA	101	72	225	48	84	0
GUINEA	CONKARY	50	36	107	28	28	0
GUINEA BISSAU	BISSAU	50	51	70	13	16	0
IVORY COAST	ABIDJAN	116	156	660	129	139	0
KENYA	NAIROBI	166	214	400	203	180	0
LESOTHO	MASERU	56	41	184	24	19	0
LIBERIA	MONROVIA	292	235	1,725	209	254	0
MADAGASCAR	ANTANANARIVO	98	31	152	27	28	0
MALAWI	LILONGWE	28	27	33	33	27	0
MALI	BAMAKO	214	16	592	61	89	0
MAURITANIA	NOUAKCHOTT	81	80	264	38	47	0
MAURITIUS	PORT LOUIS	30	1	79	17	12	0
MOZAMBIQUE	MAPUTO	53	30	106	24	14	0
NIGER	NIAMEY	88	104	262	66	60	0
NIGERIA	LAGOS	287	9	504	109	188	0
RWANDA	KIGALI	46	58	178	23	25	0
SENEGAL	DAKAR	76	98	471	88	80	0
SEYCHELLES	VICTORIA	3	0	5	7	6	0
SIERRA LEONE	FREETOWN	113	0	68	29	44	0
SOMALIA	MOGADISHU	88	168	458	106	60	0
SOUTH AFRICA	PRETORIA	8	6	75	142	124	0
SUDAN	KHARTOUM	385	217	2,163	98	76	0
SWAZILAND	MBABANE	24	51	47	37	47	0
TANZANIA	DAR ES SALAM	305	17	531	48	51	0
TOGO	LOME	110	43	238	32	49	0
UGANDA	KAMPALA	98	78	174	30	16	0
ZAIRE	KINSHASA	180	74	753	171	125	0
ZAMBIA	LUSAKA	68	59	60	39	34	0
ZIMBABWE	HARARE	69	35	111	48	37	0
ANGOLA		0	0	0	2	4	0
	TOTALS	4,238	2,537	13,245	2,324	2,371	369

28 APRIL 1987

LOCAL GUARD PROGRAM STATISTICS BY BUREAU
FY-1987
ARA

COUNTRY	POST	NO GUARDS STATE	NO GUARDS OGA	FUNDS FY-87 FBP	AUTH POSITIONS AMERICAN	AUTH POSITIONS FSN	AUTH PSC GUARDS
ANTIG/BARBUDA	ST. JOHNS	4	0	131	14	14	0
ARGENTINA	BUENOS AIRES	71	1	535	103	150	0
BAHAMAS	NASSAU	2	0	15	71	23	0
BARBADOS	BRIDGETOWN	5	5	61	93	98	0
BELIZE	BELIZE CITY	27	34	188	33	40	0
BOLIVIA	LA PAZ	103	39	482	95	110	4
BRAZIL	BRASILA	156	0	512	272	340	0
CHILE	SANTIGO	94	0	984	81	104	0
COLOMBIA	BOGOTA	216	0	1,670	155	156	0
COSTA RICA	SAN JOSE	165	65	1,176	132	125	0
CUBA	HAVANA	6	0	95	43	0	0
DOM REPUBLIC	SANTO DOMING	51	0	510	118	127	0
ECUADOR	QUITO	51	30	362	114	136	0
EL SALVADOR	SAN SALVADOR	253	234	2,034	273	128	33
GRENADA	ST GEORGES	13	4	166	25	16	0
GUATEMALA	GUATEMALA	107	28	440	135	135	0
GUYANA	GEORGETOWN	87	3	323	32	40	0
HAITI	PORT AU PRIN	53	72	523	84	108	0
HONDURAS	TEGUCIGALPA	227	62	1,289	242	149	0
JAMAICA	KINGSTON	43	47	464	111	120	0
MARTINIQUE	MARTINIQUE	3	0	175	9	8	0
MEXICO	MEXICO CITY	96	20	1,180	505	759	0
NETH ANTILLES	CURACAO	6	0	68	7	8	0
NICARAGUA	MANAGA	202	22	549	59	61	0
PANAMA	PANAMA	41	4	504	193	205	0
PARAGUAY	ASUNCION	65	24	246	49	99	0
PERU	LIMA	78	43	1,319	160	182	0
SURINAM	PARAMAIBO	26	15	180	27	16	0
TRINIDAD TOBA	PORT AU SP	14	2	234	29	38	0
URUGUAY	MONTEVIDEO	97	8	207	64	64	0
VENEZUELA	CARACAS	69	0	185	138	124	0
CAYMAN ISL		0	0	0	1	0	0
	TOTALS	2431	762	16,807	3,458	3,688	37

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LOCAL GUARD PROGRAM STATISTICS BY BUREAU
FY-1987
EAP

COUNTRY	POST	NO. GUARDS STATE	NO. GUARDS OGA	FUNDS FY-87 FBP	AUTH POSITIONS AMERICAN	AUTH POSITIONS FSN	AUTH PSC GUARDS
AUSTRALIA	CANBERRA	7	1	126	227	127	0
BRUNEI	BANDAR SERI	0	0	0	5	6	0
BURMA	RANGOON	106	19	265	59	91	206
CHINA	BEIJING	19	0	69	192	6	0
FIJI	SUVA	12	3	125	21	31	0
HONG KONG	HONG KONG	20	0	152	153	237	0
INDONESIA	JAKARTA	220	29	422	223	272	0
JAPAN	TOKYO	70	0	1,516	531	488	0
KOREA	SEOUL	63	33	530	251	344	0
LAOS	VIENTIANE	35	0	30	9	37	49
MALAYSIA	KUALA LUMPUR	46	13	218	80	92	46
NEW ZEALAND	WELLINGTON	4	0	62	40	42	0
PAPUA NEW GUIN	PORT MORESBY	7	0	126	11	15	0
PHILIPPINES	MANILA	169	238	448	446	1,083	0
SINGAPORE	SINGAPORE	32	0	126	112	73	0
THAILAND	BANGKOK	258	61	364	456	734	0
SOLOMON ISL		0	0	0	3	6	0
TONGO		0	0	0	1	3	0
WESTERN SAMONA		0	0	0	2	3	0
	TOTALS	1,068	397	4,579	2,822	3,690	301

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LOCAL GUARD PROGRAM BY BUREAU
FY-1987
EUR

COUNTRY	POST	NO. GUARDS STATE	NO. GUARDS OGA	FUNDS FY-87 FBP	AUTH POSITIONS AMERICAN	AUTH POSITIONS FSN	AUTH PSC GUARDS
AUSTRIA	VIENNA	11	6	573	163	245	0
BELGIUM	BRUSSELS	70	1	1,819	353	254	1
BERMUDA	HAMILTON	0	0	0	21	6	0
BULGARIA	SOFIA	1	0	6	36	31	0
CANADA	OTTAWA	15	2	229	383	191	0
CYPRUS	NICOSIA	41	10	155	49	79	0
CZECH	PRAGUE	11	0	37	46	50	11
DENMARK	COPENHAGEN	17	0	323	71	63	0
FINLAND	HELSINKI	11	0	169	57	55	0
FRANCE	PARIS	158	0	4,659	401	683	0
GERMANY FED	BONN	90	4	4,892	951	825	49
GERMANY DEM	BERLIN	2	0	46	41	1	0
GREECE	ATHENS	81	68	1,709	264	525	0
HOLY SEE	VATICAN	16	0	740	12	5	0
HUNGARY	BUDAPEST	7	0	58	50	56	0
ICELAND	REYKJARVIK	2	0	0	22	18	0
IRELAND	DUBLIN	40	0	413	33	47	0
ITALY	ROME	51	3	2,711	410	507	0
LUXEMBOURG	LUXEMBOURG	8	0	124	21	21	0
MALTA	VALLETTA	22	0	228	19	17	0
NETHERLANDS	THE HAGUE	6	0	481	141	124	0
NORWAY	OSLO	11	0	170	54	54	0
POLAND	WARSAW	17	0	40	87	138	0
PORTUGAL	LISBON	131	0	1,177	136	117	0
ROMANIA	BUCHAREST	8	0	26	60	59	0
SOVIET UNION	MOSCOW	0	0	0	224	8	0
SPAIN	MADRID	50	2	1,021	326	175	1
SWEDEN	STOCKHOLM	8	0	63	57	68	8
SWITZERLAND	BERN	6	0	541	180	109	0
TURKEY	ANKARA	200	14	2,550	285	269	0
UNITED KING	LONDON	33	0	876	420	430	0
YUGOSLAVIA	BELGRADE	50	3	638	111	187	0
	TOTALS	1173	113	26,474	5,504	5,417	70

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LOCAL GUARD PROGRAM STATISTICS BY BUREAU
FY-1987
NEA

COUNTRY	POST	NO GUARDS STATE	NO GUARDS OGA	FUNDS FY-87 FBP	AUTH POSITIONS AMERICAN	AUTH POSITIONS FSN	AUTH PS GUARDS
AFGHANISTAN	KABUL	58	0	171	21	29	0
ALGERIA	ALGIERS	78	21	1,058	46	40	108
BAHRAIN	MANAMA	2	0	335	40	58	0
BANGLADESH	DHAKA	188	167	272	84	238	0
EGYPT	CAIRO	190	77	1,207	445	580	0
INDIA	NEW DELHI	415	399	747	289	852	0
IRAQ	BAGDAD	26	0	515	37	30	54
ISRAEL	TEL AVIV	52	3	907	138	247	63
JORDAN	AMMAN	29	7	601	129	115	0
KUWAIT	KUWAIT	20	0	376	81	44	0
LEBANON	BEIRUT	511	22	3,106	62	94	511
MOROCCO	RABAT	114	94	458	168	288	0
NEPAL	KATHMANDU	52	86	157	63	119	0
OMAN	MUSCAT	4	0	451	64	26	0
PAKISTAN	ISLAMABAD	394	738	744	278	393	0
QATAR	DOHA	4	1	58	8	13	0
SAUDI ARABIA	RIYADH	60	0	806	504	178	0
SRI LANKA	COLOMBO	69	120	214	69	117	69
SYRIA	DAMASCUS	53	2	218	46	66	0
TUNISIA	TUNIS	124	79	527	108	151	0
UNITED ARAB	ABU DHABI	14	1	791	52	38	0
YEMEN	SANAA	0	26	486	67	65	0
	TOTALS	2,487	1,843	14,205	2,799	3,781	805

28 APRIL 1987

LOCAL GUARD PROGRAM STATISTICS BY BUREAU
FY-1987
IO

COUNTRY	POST	NO GUARDS STATE	NO GUARDS OGA	FUNDS FY-87 FBP	AUTH POSITIONS AMERICAN	AUTH POSITIONS FSN	AUTH PSC GUARDS
SWITZERLAND	GENEVA	11	2	481	0	0	0
USA	NEW YORK	34	0	1,200	0	0	0
AUSTRIA	VIENNA	3	0	78	0	0	0
	TOTALS	48	2	1,759	0	0	0

28 APRIL 1987

Question

The justifications indicate that there are Americans and Foreign Service Nationals at this post. We find that it really is 6 Americans and 5 FSNs which ought to be less expensive. Is it?

Answer

The current Department staffing levels at Embassy Vatican are: 6 Americans and 5 FSNs. Three security officer positions have been transferred: 2 to Embassy Rome and 1 to American Consulate General Milan.

Operating costs would normally decrease with less personnel assigned to post. However, with the decrease in the value of the dollar, 11.0%, and rising inflation, 9.0 percent, overall costs have increased.

Question

Why do we have 2 temporary American positions and 2 temporary FSN positions at the Vatican. What makes them different than permanent? Please provide a listing of all temporary employees and their dates of service since this post was established.

Answer

Current PIT staffing at Embassy Vatican consist of 2 Americans and 1 FSN. Since the establishment of full diplomatic relations the workload at Embassy Vatican has increased and warrants extra help, but not on a full time basis. PIT employees are used for a number of reasons, e.g. to fill staffing gaps between the departure and arrival of permanent foreign service personnel and increased workload due to special events such as a Presidential visit.

The following is a listing of all PIT employees and their dates of service since this post was established:

Americans - Executive Office (Secretaries)

Wynetta Kelly - 1/17/84-8/13/84
Sally Antonelli - 11/13/84-6/30/85
Cynthia Bishop - 1/2/85-6/30/85
La Dawna Saylor - 9/5/85-5/14/86
Karen Lewis - 12/11/85-5/23/86

Americans - Political Section

Troella Tysnik - 6/3/85-4/25/86 (Clerk/Typist)
Donna Parkinson - 9/15/86-Present (Clerk/Typist)
Virginia Hager - 5/1/86-Present (Political Asst.)

FSN - Administrative

Albert Haag - 2/1/85-Present (Administrative Clerk)

POST CLOSINGS

Question:

Mr. Secretary, don't you think if you and the President

worked on these other agencies to reduce their staffing overseas, you could reduce the diplomatic security costs enough to retain these consulates?

Answer:

The overseas staffing of other agencies is certainly a major factor in the overall support costs of diplomatic missions world-wide. However, in the case of the seven consulates closed last year and the seven proposed for closure in 1987, other-agency staffing has not been a significant determinant in assessing their usefulness in terms of U.S. global interests and priorities. Other agencies had American personnel stationed at only three of the posts closed in 1986, and their programs have either been absorbed by the embassies in the countries concerned or have continued in place under an agreement with the host country. For the posts being closed in 1987, only two (Maracaibo and Tangier) have other-agency American personnel currently assigned there. In the case of Maracaibo, USIA had already decided to withdraw its officer prior to the State Department's decision to close the post. However, USIA and contractor personnel associated with the Voice of America relay station project will remain in Tangier although the consulate is being closed.

Question:

If Congress approved your further closings, we will have closed 11 posts in Europe in the last 2 years. At the same time, overall staffing will increase by 13 in the European posts. Take Austria, for example, you close Salzburg with a staff of 3, while Vienna increases by 6. Wouldn't we be better off with a post in Salzburg instead of adding to Vienna.

Answer:

In general, the overhead costs of maintaining a small, low priority post such as Salzburg are greater over the long run than adding personnel to a large embassy to perform specific, higher priority tasks. The decision to close seven small consulates in 1986 and another seven this year, however, was based on a careful assessment of current U.S. global interests and priorities. In the current severely constrained budgetary environment, we have sought to eliminate lower priority overseas activities so that financial and other resources can be devoted to higher priority tasks.

Non-Proliferation Information

Question:

Senator Glenn has asked that we withhold further funding of Ambassador Richard Kennedy's office, until the Department of State furnishes the Department of Defense with the non-proliferation information called for in the Defense Authorization Act of 1987. That provision was obviously instigated by Defense because they felt that they were not being fully informed.

DOD has apparently indicated to Senator Glenn that over the last 4 years, State has increasingly shifted diplomatic cables on nuclear non-proliferation out of normal channels to State Department dissemination only, or no dissemination. DOD indi-

cated that they only received 2 percent of the 1,000 incoming cables and has been virtually eliminated from clearing outgoing non-proliferation cables.

Why has this information been denied Defense?

Answer:

The Department of State is fully committed to assuring that the Department of Defense has all the information related to non-proliferation that is necessary or appropriate for the carrying out of DOD's non-proliferation responsibilities.

At the outset, we would note that Ambassador Kennedy and his office, the Office of the Ambassador-at-Large for Non-Proliferation and Nuclear Energy Affairs, has no responsibility or authority for decisions on the distribution of State Department cable traffic. The Office of the Executive Secretary has the responsibility for determining the distribution of sensitive, diplomatic cable traffic, such as materials in EXDIS or NODIS channels.

With regard to the implementation of Section 1370 of the Defense Authorization Act of 1987 (the Glenn Amendment concerning access by the Secretary of Defense to information on non-proliferation matters), the Department would note that the President in his November 14, 1986 signing statement made clear that the Secretary of Defense does have certain statutory responsibilities with respect to nuclear proliferation that would be served by his receipt of appropriate non-proliferation information. The President also stated that the sharing of appropriate information on nuclear non-proliferation will be resolved through the normal interagency process in the Executive Branch. At the same time, the President stated that he "must consider this section to be advisory, since if it were construed otherwise, it would intrude on my constitutional responsibilities to direct and supervise officers of the Executive Branch and to control the dissemination of sensitive national security information."

Since the President's statement, the Executive Secretary of the Department of State has written the Executive Secretary of the Department of Defense (and has conferred personally with him), noting that the Department of State desires to share all appropriate information which relates to DOD's statutory responsibilites in this area. The Department of State has reviewed procedures to ensure that appropriate traffic up through the EXDIS level is transmitted to DOD. The Executive Secretary also noted that he would personally review carefully the extremely restricted messages (NODIS) to ensure that appropriate ones are made available. The Executive Secretary also reaffirmed the Department's offer to discuss any problems which may arise in this area.

Finally, a recent preliminary review of the daily cable traffic to and from the Department of State in Washington indicates that the Department of Defense is receiving on a regular basis the overwhelming majority of all cable traffic on non-proliferation matters. The Executive Secretariat has advised that this also applies to sensitive message traffic, such as EXDIS and NODIS cables.

Question:

Do you agree with the view that Defense is more concerned

than State about the growing amount of weapons-grade material especially plutonium, in civilian hands?

Answer:

With respect to domestic use, civilian use of weapons-grade material is quite limited. Some high-enriched uranium is used as fuel in research reactors and in one U.S. civilian power reactor. The use of high-enriched uranium is expected to decline as reactors convert to fuels of reduced enrichment. As for plutonium, the U.S. does not engage in civilian reprocessing or use plutonium for commercial energy production, and there are no plans at this time for the construction of breeder reactors.

With respect to plutonium use overseas, the Administration believes, as reflected in the President's policy statement of July 1981 (attached), that plutonium must be carefully controlled and safeguarded. The President has categorically reaffirmed our commitment to inhibiting the transfer of sensitive nuclear material where the danger of proliferation requires restraint and to limiting sensitive nuclear facilities and activities to those countries where their presence results in no significant risk of proliferation.

At the same time, the President stated that "the U.S. will not inhibit or set back civilian reprocessing and breeder reactor development abroad in nations with advanced nuclear power programs where it does not constitute a proliferation risk." It is the Administration's view that the U.S. is not in a position to dictate or prescribe a policy on reprocessing for plutonium use for developed countries with advanced nuclear programs which have committed themselves to using plutonium to meet their future energy needs. Instead, the Administration believes that our only realistic course is to work with these select countries to help improve safeguards and physical protection measures applied to such material.

The Department of State fully supports the President's policy, and is working hard with other concerned agencies to achieve these objectives. In order to minimize the potential risks involved with plutonium use, the U.S. has initiated and participated in multilateral efforts to improve safeguards on plutonium and to reduce the risk of its use for non-peaceful purposes. These have included efforts to revise and upgrade export "trigger lists" on reprocessing equipment, and have also included close cooperation with the IAEA and other nations on developing more efficient and effective measures for safeguarding reprocessing plants and other facilities which handle plutonium. The Administration is also making vigorous efforts to renegotiate our existing agreements for peaceful nuclear cooperation in order to incorporate all of the additional requirements of the Nuclear Non-Proliferation Act of 1978, including expanded consent rights over reprocessing and rights of approval of facilities for the storage of weapons-useable material.

The U.S. has also worked hard to ensure that plutonium, high-enriched uranium, and all nuclear materials are subject to adequate physical protection. To this end, the U.S. took the initiative in developing international guidelines on physical protection (INFCIRC 225), achieved the agreement of other suppliers to require minimum levels of physical protection on their exports (INFCIRC 254), and was instrumental in establishing the Convention on the Physical Protection of Nuclear Material. Bilaterally, we exchange information with other countries on the state-of-the-art in physical protection. We also require our cooperating partners to provide us with formal assurances that nuclear material which we export to them will be subject to adequate physical protection.

Current
Policy No. 303

President Reagan

Nuclear Nonproliferation

July 16, 1981

United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is a statement by President Reagan on July 16, 1981.

Our nation faces major challenges in international affairs. One of the most critical is the need to prevent the spread of nuclear explosives to additional countries. Further proliferation would pose a severe threat to international peace, regional and global stability, and the security interests of the United States and other countries. Our nation has been committed on a bipartisan basis to preventing the spread of nuclear explosives from the birth of the atomic age over 35 years ago. This commitment is shared by the vast majority of other countries. The urgency of this task has been highlighted by the ominous events in the Middle East.

The problem of reducing the risks of nuclear proliferation has many aspects, and we need an integrated approach to deal with it effectively. In the final analysis, the success of our efforts depends on our ability to improve regional and global stability and reduce those motivations that can drive countries toward nuclear explosives. This calls for a strong and dependable United States, vibrant alliances and improved relations with others, and a dedication to those tasks that are vital for a stable world order.

I am announcing today a policy framework that reinforces the long-standing objectives of our nation in nonproliferation and includes a number of basic guidelines. The United States will:

- Seek to prevent the spread of nuclear explosives to additional countries as a fundamental national security and foreign policy objective;
- Strive to reduce the motivation for acquiring nuclear explosives by working to improve regional and global stability and to promote understanding of the legitimate security concerns of other states;
- Continue to support adherence to the Treaty on the Non-proliferation of Nuclear Weapons and to the Treaty for the Prohibition of Nuclear Weapons in Latin America (Treaty of Tlatelolco) by countries that have not accepted those treaties;
- View a material violation of these treaties or an international safeguards agreement as having profound consequences for international order and U.S. bilateral relations and also view any nuclear explosion by a non-nuclear-weapon state with grave concern;
- Strongly support and continue to work with other nations to strengthen the International Atomic Energy Agency (IAEA) to provide for an improved international safeguards regime;
- Seek to work more effectively with other countries to forge agreement on measures for combating the risks of proliferation;
- Continue to inhibit the transfer of sensitive nuclear material, equipment, and technology, particularly where the danger of proliferation demands, and to seek agreement on requiring IAEA safeguards on all nuclear activities in a non-nuclear-weapon state as a condition for any significant new nuclear supply commitment.

I am also announcing that I will promptly seek the Senate's advice and consent to ratification of Protocol I of the Treaty of Tlatelolco.

The United States will cooperate with other nations in the peaceful uses of nuclear energy, including civil nuclear programs to meet their energy security needs, under a regime of adequate safeguards and controls. Many friends and allies of the United States have a strong interest in nuclear power and have, during recent years, lost confidence in the ability of our nation to recognize their needs.

We must reestablish this nation as a predictable and reliable partner for peaceful nuclear cooperation under adequate safeguards. This is essential to our nonproliferation goals. If we are not such a partner, other countries will tend to go their own ways, and our influence will diminish. This would reduce our effectiveness in gaining the support we need to deal with proliferation problems. To attain this objective, I am:

- Instructing the executive branch agencies to undertake immediate efforts to insure expeditious action on export requests and approval requests under agreements for peaceful nuclear cooperation where the necessary statutory requirements are met;
- Requesting that the Nuclear Regulatory Commission act expeditiously on these matters.

The Administration will also not inhibit or set back civil reprocessing and breeder reactor development abroad in nations with advanced nuclear power programs where it does not constitute a proliferation risk.

The United States will support IAEA programs and other international cooperative efforts in the areas of nuclear safety and environmentally sound nuclear waste management.

To carry out these policies, I am instructing the Secretary of State, working with the other responsible agencies, to give priority attention to efforts to reduce proliferation risks, to enhance the international nonproliferation regime, and, consistent with U.S. security interests, to reestablish a leadership role for the United States in international nuclear affairs. ■

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REPORT OF AMBASSADORS

Question:

Last year you told us that you had asked three experienced career ambassadors to go through the Department's budget on a zero basis.

What was the result of that effort.

Answer:

The Resource Planning Group made several recommendations which have been implemented. Foremost was the recommendation for an interagency review of the overseas staffing of all USG agencies in order to both reduce costs and to lower our profile in the face of continuing threats from terrorism. The Secretary of State reported to the President in July on the initial results of the 1986 Overseas Presence Staffing Review. The review resulted in agreement to reduce or relocate approximately 700 American positions, or 4.1% of the total American staffing levels in diplomatic missions overseas (1,500 positions or 8.3% if Defense draw downs in Saudi Arabia are included). The State Department plans to relocate or abolish 189 positions as a result of the review.

As part of the review of overseas staffing the Resource Planning Group recommended that regional offices be looked at to determine whether the work they perform could be done more cost-effectively from a different location or from the United States. The Department did an analysis of a proposal to relocate to Miami, Florida many of State's regional offices that serve Latin America. Our conclusion was that a Miami regional center was feasible and would save money in the second year of operation; however, due to budget reductions, we have not been able to identify funding for the start-up costs for the center. Given the budget outlook, we have postponed a review of the feasibility and cost-effectiveness of establishing a similar regional center to support our operations in the Far East.

We have also implemented the Resource Planning Group's recommendations to reduce the Department's American and foreign national hiring. Our hiring plan for FY 87 calls for a reduction of 165 in the non-security American workforce and a 6% reduction in funding for foreign national employees.

Despite many misgivings, the Resource Planning Group found it necessary to recommend closing Foreign Service posts. There is currently pending with the Congress a proposal to close seven consulates overseas.

REORGANIZATION OF STATE DEPARTMENT

Question:

What reorganization have you proposed to the Secretary of State to eliminate the overlap that you perceive?

Answer:

Specific recommendations are presently under consideration within the Department. The particulars will be made available to the Congress as soon as the Secretary is ready to present them as the views of the Department and the Administration. As you can appreciate, reorganization is always a highly sensitive subject within any bureaucracy, and we are reluctant to be too

specific until the ideas have been fully vetted and some clear options have emerged.

In approaching the task of reorganizing, a major consideration will be achieving economies of scale by amalgamating small bureaus, and greater policy effectiveness by merging bureaus with complementary functions. A second thrust should be to eliminate unneeded redundancy (two positions or offices with nearly identical functions, for example) and layering that makes the organization less responsive. A third is to utilize our management improvement efforts to achieve greater overall productivity so that we may reduce the size of certain units, or even eliminate them.

Question:

In our hearings last year, the Department listed 74 deputy assistant secretary positions. You say these positions have to be thinned out. Just which ones do you have in mind?

Answer:

While the number of deputy assistant secretaries at State is large, that does not in itself prove anything, since there is no absolute right or wrong number to shoot for. The ultimate measure is the Department's effectiveness in the formulation and conduct of foreign policy. With respect to specific DAS positions, it seems to us the right question is whether they add needed substance and coordination to the process, or merely act as an unnecessary layer.

Any exercise to reduce the number of deputy assistant secretaries will have to be coordinated with the bureaus affected. One approach would be to require each bureau with more than three DASes to reduce that number by one when the next vacancy occurs. In addition, to the extent that the number of bureaus might be reduced through reorganization, this would also permit a reduction in the number of DAS positions.

We will keep the Congress informed as proposals are developed which may result in changes to the administrative structure of the Department.

Question:

While we might agree that the best time for such a reorganization to happen would be when the Administration changes, don't we have to get started with the necessary legislation now so that the next Administration can be ready to put the reorganization into place?

Answer:

The Department will propose legislation for reorganization only if it is prepared to follow through promptly with implementation of the major elements of that reorganization. No decision has yet been made as to whether to request such legislation. It is worth noting that a considerable amount of reorganization can be accomplished administratively, including establishment, disestablishment, or merging of bureaus (with the exception of those which have been specifically created by statute). As a practical political matter we think it might be better for us to recommend changes requiring congressional action to the next administration, rather than doing what might

be interpreted as attempts to foreclose their options through pre-emptive legislative action.

PANAMA CANAL ALTERNATIVES STUDY

Question:

What is the funding level for the Panama Canal Alternative Study in your FY 1988 request?

Answer:

The Department has requested $2.476 million and three positions for FY 1988.

Question:

When the United States studied the feasibility of a sea-level canal in Panama during the 1960s, it did not thoroughly examine relevant environmental issues. In particular, it did not conduct a biological inventory of those areas which would be affected by construction of a new or expanded canal. What plans are there to assess these matters more completely in the current study? Over the life of the study, what level of expenditures do you anticipate to examine these environmental and biological issues?

Answer:

The Department recognizes that there were criticisms of the environmental studies conducted for the 1970 sea-level canal study. The National Research Council recommended a more thorough study which would include a detailed data collection effort. The Canal Alternative Study has taken this recommendation into account and will include both a biological inventory and an environmental assessment. The total cost for both studies is currently estimated at 2.8 million dollars. Although this amount will not allow for a data collection effort at the level recommended by the NRC, it should provide the basis for sound enviornmental assessment of the selected alternatives.

OFFICE OF MUNITIONS CONTROL

Question:

To what extent do OMC licensing officers do less review of license applications than is desirable to remain timely and handle their workload? What is the average processing time for various types of OMC cases?

Answer:

Licensing officers do not generally sacrifice accuracy for timeliness. A random sample of processed applications taken recently showed that processing time had increased over 300% from FY 82 to FY 86. OMC is developing a measuring system in coordination with the Bureau of Labor Standards, Department of Labor, to be able to accurately monitor processing progress under the Productivity Program.

Question:

To what extent has OMC identified additional resources needed to handle its increased workload in a timely and complete manner? To what extent are OMC's resource needs provided for in State's

FY 1988 budget? What plans does State have for providing increased resources to OMC in subsequent years?

Answer:

The Department has submitted to OMB a Productivity Program for OMC for FY 88 through 90. The program came about as a result of various efficiency studies and inspections of OMC conducted in-house. A copy of the Productivity Program is enclosed. The FY 1988 request from PM/OMC included chief document processing and ADP support staff. Two positions were denied by OMB and one position denied by PPG.

DEPARTMENT OF STATE

Bureau/Division: Politico-Military Affairs

Functional Activity: Munitions Licenses

	1985 Baseline	1986 Actual	1987 Expected	1988 Expected
Total Outputs	44,781	49,106	51,000	53,000
Total Inputs ($ in thousands)				
1. Personnel compensation	1,138	1,202	1,283	1,401
2. Automation expenses	20	76	25	73
3. Other expenses	36	50	25	28
FTE's	30	30	31	31

BUREAU OF POLITICO-MILITARY AFFAIRS
OFFICE OF MUNITIONS CONTROL

PRODUCTIVITY PROGRAM PLAN FY 87 THROUGH FY 90

I - Introduction:

Section 38(a)(1) of the Arms Export Control Act authorizes the President to control the export of defense articles and services. This authority has been delegated through the Secretary of State (E.O. 11958) to the Assistant Secretary for Politico-Military Affairs (PM) and the Director, Office of Munitions Control (OMC).

OMC administers the United States Government program to control commercial exports of defense articles and defense services, including related technical data (1 FAM 200.2-2). The program is intended to further world peace, and the security and foreign policy of the U.S.

OMC exercises its responsibility through a licensing process prescribed in the International Traffic in Arms Regulations (ITAR), Title 22, Code of Federal Regulations, Parts 121-130. The ITAR defines the defense articles and services which constitute the U.S. Munitions List; requires registration of manufacturers and exporters of defense articles/services; and prescribes policy and procedures for making application for licenses to export defense articles and technical data.

The U.S. Munitions List enumerates the articles OMC controls. The Department of State, with the concurrence of the Department of Defense, decides what constitutes arms, ammunition and implements of war for export control purposes.

The Department of State consults with the Departments of Defense and Commerce to determine whether State or Commerce should have licensing jurisdiction over articles that have both military and civil uses; dual-use items which do not appear on the Munitions List are subject to Commerce Department controls.

Applications for export authorization are required whenever Munitions List articles, which can include both classified and unclassified technologies, are to be:

- commercially exported (22 CFR 123 and 125);

- commercially exported temporarily for demonstration or other purposes and returned to the United States (22 CFR 113);

- commercially brought to the United States in transit to a third country or for return to the country of origin (22 CFR 123);

- commercially described, for disclosure to foreign nationals or export abroad, using information defined as technical data (22 CFR 125).

Licenses issued for these purposes are valid for two years.

In addition, proposed transfers to third countries of equipment previously exported from the United States under a Department of State license, proposed manufacturing license and technical assistance agreements, and amendments to existing agreements, must be submitted to OMC for approval before they

take effect (22 CFR 123 and 124). Approvals for retransfers and agreements are granted by letter rather than by license.

With regards to Foreign Military Sales (FMS) cases, OMC licenses only temporary exports and temporary imports.

The ITAR (22 CFR 126) specifically prohibits shipments of Munitions List articles to or from communist and embargoed countries, except for Yugoslavia and China. China is subject to COCOM controls.

Description of the work performed

The Office of Munitions Control consists of 31 FTE's distributed as follows:

OFFICE OF THE DIRECTOR (whose function is program direction)

- the Director
- the Deputy Director
- the Special Assistant to the Director
- the Special Assistant (Space and Nuclear)
- and two secretaries

LICENSING DIVISION (whose function is to make licensing decisions)

- the Chief
- the Deputy Chief
- five Licensing Officers
- three Document Examiners
- and three secretaries

THE PROCESSING CONTROL DIVISION

- the Chief
- and two Para-legal Analysts (who deal exclusively with compliance analysis)

- the Chief of the Records and Reports Branch
- and two Computer Operators (who manage and operate the ADP system)

- the Acting Chief of the Document Processing Branch
- and five clerks (who perform the mechanical functions of data input, staffing, registration , mailing and filing)

OMC reviews each application on a case-by-case basis to determine that the proposed export is consistent with:

-- applicable statutes, precedents and the ITAR

-- U.S. security and foreign policy, and the furtherance of world peace

Approximately eighty percent of the applications received by OMC can be acted on without review by other offices; most export authorizations are approved or denied by OMC within hours of receipt and returned to applicants within two weeks. The remaining cases, because of destination, quantities, and/or commodity significance, may be referred for review to other offices of the Department and appropriate federal agencies to assure that an approval would in fact further world peace, and the security and foreign policy of the United States.

OMC conducts end-use checks through U.S. embassies and consulates overseas to verify information provided by U.S. applicants. Cases affecting U.S. arms control objectives and negotiations, and regional balance of forces are routinely referred to the Arms Control and Disarmament Agency. On security and technical matters, OMC officers may seek the views of various offices of the Department of Defense, the military service most familiar with the article being exported, the National Aeronautics and Space Administration, the Department of Energy and other agencies. In matters concerning U.S. foreign policy, OMC may request the views of regional and functional bureaus in the Department of State.

OMC takes final action on these applications based on interagency review, reconciling any differences between reviewing offices. Final action on cases reviewed for foreign policy or security reasons may be delayed for long periods; applications so treated, may take from three months to a year before they are adjudicated. All licensing decisions are final and there is no constituted appeal process other than reapplying.

II. Goals of Productivity Program

A - To process licenses that do not need to be staffed within five working days from date of receipt to mailing date.

B - To complete processing of licenses that have been staffed within five working days from date of staffing completion to mailing date.

C - To provide statistical reports to authorized recipients within two working days from receipt of request.

D - To lower the cost per issuance by diengaging higher level managers (the Director, Deputy Director, Special Assistant to the Director, Chief of the Licensing Division and Deputy Chief of the Licensing Division) from the mechanics of license issuance so that they can dedicate 100% of their time to their program direction and quality control functions.

E - To analyse and monitor industrial compliance with the appropriate laws and regulations.

III - Activities and tasks in function to be improved:

A - Timeliness and cost of rendering decisions on permanent export license requests for commodities and technical data on the U.S. Munitions list.

B - Timeliness and cost of rendering decisions on temporary export license requests for commodities on the U.S. Munitions list.

C - Timeliness and cost of rendering decisions on temporary import license requests for commodities on the U.S. Munitions list.

D - Timeliness and cost of rendering advisory opinions, upon the request of industry, on matters relating to the International Traffic in Arms Regulations; such as, what commodity can be exported to what country, etc.

E - Timeliness and cost of rendering written decisions upon industry's request, as to whether or not a commodity is on the U.S. Munitions List, and therefore, a license is needed for its exportation.

F - Timeliness and cost of approving contracts and agreements entered into by U.S. manufacturers or exporters, as required by law and regulations, which deal with commodities on the U.S. Munitions List.

IV - Problems in the performance of the function:

OMC processed 25,729 cases in FY 77 and will surpass 48,000 in FY 86. This office managed this workload with no increase in personnel. A random sample of available data on DSP-5's (export applications) shows what has happened. The average days elapsed between receipt of the application at OMC and the day in which the final action was taken has grown steadily.

FY 82 - 14.67 days
FY 83 - 12.66 days
FY 84 - 33.47 days
FY 85 - 44.78 days
FY 86 - 61.75 days

Although the results may not faithfully reflect the real average number of days it took to process a license application, it does show a very important relationship between growing workload, static resources and declining timeliness.

In 1981 the Department recognized the increasing workload and funded an Automatic Data Processing (ADP) system for OMC. This accounts for the improvement in timeliness in 1983. Because of inexperience in ADP use as a decision making tool and funding problems which have precluded yearly revisions , the initial program design has proven to be insufficient to manage increasing workload volume and complexity. Other factors which have also contributed to magnify the inadequacy of the design are the added responsibilities in MOU negotiations and Missile Tech Agreement monitoring. These are two functions that our office must monitor and take action upon the arrival of datelines and indicators input into the ADP. Both soft and hardware are in urgent need of updating.

A second problem area is compliance. The concentration of our efforts on applicant services and application processing has not allowed us to properly address the client population's compliance with the pertinent laws and regulations. Consequently, the only indications we have on this subject are violations brought to our attention by Customs and Justice. In this regard, we can cite two very specific areas of concern. One is whether or not all manufacturers of Munitions List commodities are registered per 22 CFR 122.1. The other is whether or not the enforcement agencies and the defense industry in general have an adequate knowledge of the ITAR which will help the former to spot violations and the latter to avoid unintentional breaches.

Antiquated filing systems and procedures have become a stumbling block to efficient operations and space management. The decision making process is more expedient when documentary evidence is available showing precedents. Faced with a yearly growth of ten percent and limited storage space, we have now retired all applications and ancilliary documentation adjudicated prior to January 1, 1984. Given that industry and technology are growing by leaps and bounds; that defense commodities and technological controls are becoming subjects of Administration and media interest; and considering the trade expansion which may arise out of virtually untapped growth

markets, such as the PRC, the day is approaching when we will not be able to store one complete fiscal year worth of records.

Lastly, there are problems in grade and organizational structure that affect production quality, span of control and output flexibility.

V - Measurement system:

Currently, a number of reports on munitions exports to the Department and to Congress are prepared on a monthly, quarterly and annual basis. Compliance is checked by instruments such as telegraphic end-use checks with our embassies abroad, on an ad hoc basis. These measurements do not address timeliness and cost.

VI - Organizational performance standards:

At present, because of the workload/resources imbalance, there is a lack of meaningfully defined organizational performance standards. The standards are being redeveloped to link output and timeliness.

VII - Expected changes in quality and timeliness:

OMC proposes to increase the number of licenses issued with a weighting factor for timeliness. In the area of compliance we shall strive to increase the number of end-use checks proportinally to licenses requested.

VIII - Resources requirements and scheduling:

-about $99,000 in equipment enhancement
-15 new PTE's
-8 FTE upgradings
-one FTE downgrading
-one FTE reprograming

Scheduling:

We propose that the allocation of resources be spread over three fiscal years, beginning in FY88, to ease the funding blow to the Bureau and allow for adequate transition time. Our functional priorities are:

1-Processing Control and equipment
2-Creation of the Compliance Analysis Division
3-Reorganization of the Licensing Division

The resources requirements have been broken down in phases for purposes of planning, inter-office/agency coordination, internal assimilation and coping with expected funding shortages. The project is expensive but it is also justified by real needs. Its aim is to correct the existing problems and to provide sufficient flexibility for future workload increases and substantive needs.

Phase I- Enhancement of present system's processing effectiveness (FY88).

EQUIPMENT

1- Upgrade present Wang VS-80 computer to VS-65: cost $56,000.

2- Enhancement of the ADP program design: $20,000.

3- Acquire a 3-M Microfilming System, including a page search reader-printer: cost $23,000.

4- Acquire 14 new CRT's and five additional printers: cost unknown.

PERSONNEL

1- Add two GS-5 Input Clerks to insure increased data base input for the new program.

2- Add new GS-8 Chief, Document Processing Branch.

3- Move GS-7 Deputy Branch Chief FTE to Records and Reports Branch.

4- Move present GS-12 position from Chief, Records & Reports Branch to Deputy Chief, Processing Control Division.

Phase II- Functional and space enhancement (FY89).

EQUIPMENT AND OFFICE SPACE: Obtain additional office space and equipment for FTE's to be added during Phases II and III and for those which were added during the first phase, who were temporarily supported with existing resources.

PERSONNEL: Add one GM-15 Chief, one GS-14 Legal Counsel, two additional Para-legal Analysts, a GS-8 Legal Secretary and a GS-7 Secretary.

Phase III- Final expansion and consolidation (FY90).

1- Add two military (O-4's) Licensing Officers.

2- Add two GS-6 Secretaries and one GS-7 Secretary.

3- Add two GS-14 Branch Chiefs to Licensing Division.

4- Upgrade:

- Director to SES-1
- Chief, Licensing Division to GM-15
- Deputy Chief, Licensing Division to Branch Chief at GS- 14
- Licensing Officers (civilians) to GS-13

5- Downgrade Special Assistant (Space and Nuclear) to GS-13 and transfer to Licensing Division as Licensing Officer, upon incumbent's retirement.

Question:

What enforcement/compliance efforts does OMC undertake besides those performed by the U.S. Customs Service? For example, the International Traffic in Arms Regulations provide suspension and debarment authority in conjunction with munitions export licensing. How often in the past 10 years has OMC used this authority? Why have there been so few instances of suspensions or debarments?

Answer:

It is OMC's practice to address every available forum in an

effort to familiarize industry with law, regulations and procedures in munitions export licensing. To this effect, OMC officers speak often at U.S. defense industry gatherings.

In addition, OMC regularly puts out a newsletter to maintain a needed information link with industry. This newsletter informs munitions registrants and other interested parties of changes in the regulations and procedures.

While the actions described above are preventive in nature, OMC relies almost entirely on U.S. Customs for reactive enforcement actions. Other government agencies, such as the U.S. Postal Service and the Federal Bureau of Investigation, also enforce the ITAR. The Department of Justice prosecutes alleged violations resulting from enforcement investigations.

OMC's compliance evaluation function can be improved. To that effect, the Productivity Plan provided as part of the answer to an earlier question addresses the function's expansion by the creation of a Compliance Analysis Division at OMC.

Question:

What compromises in OMC's mission have been necessary in order for it to stay on top of its increasing caseload?

Answer:

Insofar as it can be determined, timeliness of response is the major part of the OMC's mission which has suffered from the increased workload. Additionally, OMC's scarce resoures have prevented the office from devoting sufficient time to an active compliance analysis role essential to its mission.

DOMESTIC PASSPORT

Question:

The budget identifies $1,944,000 in non-recurring cost savings due to extending the validity of passports from five to ten years. Congress is considering the elimination of place of birth on U.S. passports as an anti-terrorism measure for individuals born overseas. If this initiative goes into effect and new passports are issued, what will be the budgetary impact? Will any savings be realized?

Answer:

If place of birth information is eliminated from U.S. passports issued in the future, it is expected that a number of U.S. citizens holding passports who are sensitive about their overseas birthplace would apply to obtain new passports. However, it is not possible to estimate the number of applications which would be generated by this initiative. To the extent that such workload were to materialize, we would incur higher costs as existing passports were replaced earlier than the end of their normal ten year lifespan. The passport issuance fee of $35 would, of course, be deposited to the U.S. Treasury and would not be available to defray the additional expenses incurred by the Department.

Question:

What is the Department's position on elimination of the place of birth from the passport?

Answer:

Given the increase in international terrorism over the past few years, particularly the focus on U.S. citizens, a number of U.S. citizens and Congressmen have asked if the Department of State would eliminate the place of birth from the U.S. passport. As a result of these inquiries, the Department undertook a survey of 26 countries representing the destination of over two-thirds of the American traveling public, to determine how these countries would react to removal of the place of birth from our passport. At the same time, the Department surveyed U.S. law enforcement agencies to determine what effect the removal of the place of birth would have on their activities.

Eighteen of the 26 countries surveyed indicated that they would accept without reservation passports which did not show place of birth. Of the remaining eight, seven countries had a problem with removing the place of birth and one did not respond. The reason for objecting was the same as that of our own law enforcement agencies, namely that the place of birth is one of the three major indicators used to verify identity. According to the U.S. agencies which opposed deletion (i.e., Custom, the INS and the FBI), place of birth is quite often the most significant indicator in preventing the entry into the United States of terrorists, drug traffickers and those who are attempting to enter illegally.

Deletion of the place of birth became a Congressional issue during the deliberations on the Omnibus Diplomatic Security and Anti-Terrorism Act of 1986. In recognition of the concerns of the U.S. law enforcement agencies, the final language adopted required the Comptroller General to submit a report to the Congress within a year on the implications of deleting the place of birth. The GAO study is underway and a report should be ready for submission to Congress in August, 1987.

The Department of State does not object to eliminating the place of birth from U.S. passports, provided there is an agreed Administration position. However, we would like to point out that if the Congress should determine that the place of birth is to be deleted from the U.S. passport, section 101(a)(30) of the Immigration and Naturalization Act should be amended accordingly.

POST ASSIGNMENT TRAVEL

Question:

What progress has the Department made in improving travel advance management?

Answer:

A contractor has been engaged to resolve travel advance discrepancies. The contractor has researched the accounts, made correcting entries, sent collection letters to non-State travelers and recommended payroll deductions for State travelers on outstanding balances. To date, over 4000 accounts have been reviewed.

The development of new systems which will allow the Department to track and monitor outstanding travel advances is proceeding. An RFP to develop a new Central Financial Management System which includes an integrated travel system is currently being evaluated. Contract is scheduled to be awarded in the last quarter of FY/87.

The Department has entered into a cross-servicing agreement with the Department of Agriculture's National Finance Center (NFC) to process travel reimbursement vouchers. Faster processing of vouchers insures more timely reporting and collection of travel advances. Effective April 15, three bureaus will begin using this service under a test program. It is anticipated that all of the Department's bureaus will be submitting their travel vouchers to the NFC by the end of the calendar year.

Effective May 1, the Department will begin using Government contract-issued charge cards (Citicorp/Diners Club) for frequent travelers on a test basis. Under the charge-card program, travelers will purchase traveler checks with their charge card. This procedure will drastically reduce the number of cash advances to our travelers. By contract, the card can only be issued to Government employees.

Thirty percent of all advances are issued to non-State travelers whose travel is authorized under the Federal Travel Regulations. Advances for these travelers are now limited to 80 percent of the estimated travel expenses.

Delinquency rates have decreased from 91.7 percent in 1985 to a current 40.8 percent.

Question:

How do current delinquency rates compare with rates reported by GAO? How do total outstanding balances compare?

Answer:

Rates reported by GAO:

Total advances outstanding	$10,856,852
Amount outstanding over 60 days	9,960,664
Percent delinquent	91.7%

Current rates:

Total advances outstanding	$17,864,102
Amount outstanding over 60 days	7,293,842
Percent delinquent	40.8%

Question:

What actions, if any, has the Department taken under the Debt Collection Act of 1982, to recover delinquent balances? How many accounts and what is the total value of referrals for payroll deductions?

Answer:

The Department has developed computer programs to aid in analyzing the travel advance data base. The capability is now available to isolate the advances outstanding by year of issue so that the oldest advances receive first consideration in the research and collection process. The process of submitting payroll deductions has been reviewed and standardized so that collections from payroll deductions are handled more quickly and correctly reflected in the travel advance accounts.

Since the GAO report, payroll deductions totaling $196,423 have been initiated against 152 State employees. In addition, 163 accounts totaling $72,038 involving non-State travelers have been referred to a special accounts collection office. Both IRS and credit bureau sources are utilized to locate these travelers so that further collection action can be taken.

Question:

How do you assess your current management of travel management?

Answer:

The initiation of the Citicorp/Diners club charge card program will have a noticeable impact upon the management of future travel advances when fully implemented. It is anticipated that 80 percent of the State travelers will be issued a charge card, thereby reducing the total outstanding advances for temporary duty travel by 56 percent.

The improvements set in motion to better manage the travel advance control accounts are gradually being realized. Once the full benefits of having travel vouchers processed by the National Finance Center and of using Citicorp/Diners club charge cards for travelers checks in lieu of cash advances have been achieved, staff efforts can be redirected to maintaining accounts on a current basis.

A major improvement will accrue when the Department's central Financial Management System (FMS) is installed. This segment of FMS consolidates all travel advance data worldwide and will permit more timely transmission and reconciliation of advances.

The Department has taken significant steps to improve the management of travel advances. It recognizes that further long-term actions are necessary and it will continue to pursue these efforts.

Question:

The Department requested $58,211,000 for post assignment travel. Does this reflect any change in policy on length of tours? What is the current length of tour?

Answer:

The Department's 1988 request for post assignment travel reflects the revised tour of duty (TOD) policy. Under the revised policy, the Department will have a basic three year tour of duty for all staff at all posts with the exception for junior officers and non-senior level I officers at 20% and 25% differential posts.

ACQUISITION AND MAINTENANCE OF BUILDINGS ABROAD

Question:

The Department's new buildings program includes 61 active projects totaling about $1 billion. New sites are being identified in Beijing, Shanghai and Guangzhou in China, and Cotonou, Benin. Is the security threat significant enough at these locations to justify new facilities at this time?

Answer:

The Department has received site acquisition funds for

Cotonou and partial funding for Beijing, Shanghai and Guangzhou. The remaining funds for Beijing, Shanghai, and Guangzhou will be requested in FY-89.

Our consulates in China occupy short-term leased buildings which do not meet security, fire, or space standards. The buildings are overcrowded now and will become more so as our relations improve and U.S. Government programs expand. In Beijing, our operations are conducted from three separate compounds. The technical-security threat level for these posts is considered high, and relocation into modern buildings with the latest security features is important. The Government of China has offered us sites under 90-year leases which would enable us to construct modern office facilities which meet current security standards.

In Benin, the short-term leased chancery is located directly across from the Government's military headquarters, which the Government of Benin finds inappropriate. They have pressed us to relocate for several years, but we have been unable to find a suitable site. The Goverment of Benin recently offered us a suitable site.

Security concerns also make moving attractive: our current proximity to the military headquarters puts us directly in harm's way should trouble break out; Benin cooperates closely with Libya, and the present threat situation could change dramatically on short notice. In view of the Government of Benin's long-standing insistence that we move and our past difficulties in locating a site, we feel we should take advantage of this opportunity and use the available funds for the purchase.

Funds for construction have not been requested for these projects because other projects are of higher priority. However, the current facilities must be replaced eventually and sites should be secured to this end.

Question:

Are there other more current threatened posts that should be given priority? Can some current projects be delayed in order to reach those having a higher priority?

Answer:

The projects funded to date and those included in our 1988 budget request reflect our highest priorities based on the security threat assessments of the Department's Bureau of Diplomatic Security.

The Diplomatic Security construction program authorization and the budget requests for 1986, 1987, and 1988 were based on careful consideration of both the physical and technical security threat for all our posts. We also considered projects that were already funded and underway, to include in the 1986 and 1987 appropriations the estimated cost of the measures required for these projects to meet current enhanced security standards.

The 1988 budget request continues the authorized multi-year program and seeks funds for the highest priority projects that can be accommodated within the appropriation's authorization level of $417 million.

Through judicious reprogramming actions, we intend to

acquire sites when available for the other posts identified in the program. In this way, we will be able to accelerate the design and construction process when funds are made available in future budgets.

Question:

How many overseas projects does the Office of Foreign Buildings (FBO) currently have under construction? What is the expected cost of these projects? Are these projects on schedule and within current budget?

Answer:

A/FBO has thirteen capital and major projects currently under construction. These projects are noted below with their estimated total cost and current status.

POST	PROJECT	COST	% COMPLETE	STATUS
BONN	Emb Renovation	$ 11.5 mil	35%-A	Within Budget
BONN	Staff Apt Rehab	41.6 mil	30%-A	Within Budget
CAIRO I	New Office Bldg.	42.0 mil	42%	See Footnote #1
CALCUTTA	New USIA Off. Bldg.	7.7 mil	43%-B	Within Budget
DHAKA	New Office Bldg.	17.9 mil	35%-A	Within Budget
GABORONE	New Office Bldg.	6.1 mil	2%-A	Within Budget
LAHORE	New Consulate	2.0 mil	34%-B	Within budget
MOGADISHU	New Compound	33.4 mil	26%-A	Within Budget
MOSCOW	New Office Bldg.	192.0 mil	82%	See footnote #2
MUSCAT	New Office Bldg.	31.0 mil	14%-A	Within Budget
NIAMEY	New USAID Bldg.	2.6 mil	14%-A	Within Budget
SAN JOSE	New Office Bldg.	12.5 mil	71%-A	Within Budget
SANAA	New Compound	30.7 mil	A	Within Budget (Design/Build)

A - On Schedule
B - Two- to four-month delay

[1]CAIRO: Original construction contract awarded 11/82 for $27,600,000; terminated for default 1/85. $3,200,000 recovered from letter of guarantee. Project redesigned to meet new security standards and new contract awarded 2/86.

[2]MOSCOW: Total project included the new office building, 138 housing units, MSG quarters, and social and recreational facilities. All but the office building are complete. Appropriated funds are sufficient to complete the project, provided that security concerns do not require major demolition.

Question:

How many staff, including Foreign Service, Civil Service and contract personnel, does FBO currently have to carry out its building program? The Fiscal Year 1986 Security Supplemental authorized an additional 133 positions for FBO. How many of these positions have been filled? When will FBO be at its projected level of 298 personnel?

Answer:

The Office of Foreign Buildings Operations has a total of 298 positions, including the 133 positions which we received

six months ago in the 1986 Security Supplemental. We have approximately 130 direct-hire employees on board at present, and 75 people under personal service contracts. Thirty-nine of these people represent the Security Supplemental positions. We expect most or all of the positions to be encumbered by late in the year, either by direct-hire or contract personnel.

Question:

How much of FBO staff resources are devoted to monitoring construction projects?

Answer:

The Construction Management Division has a staff of 73 overseas and domestic positions to carry out construction management. Additional personal services contractors are utilized overseas, as necessary, to assist with on-site supervision. In 1988, $24,784,000 is requested to fund this program.

In addition, each contract site on projects where Sverdrup, our program management consultant, has construction responsibility, will have three to four Sverdrup construction management employees.

Question:

To date, under the Omnibus Diplomatic Security and Anti-terrorism Act of 1986, the Department has been appropriated $622 million of the $2.1 billion authorized for overseas security construction. How much of the appropriated amount has been obligated and expended?

Answer:

Of the $622 million appropriated under the Omnibus Security and Antiterrorism Act of 1986, $23.7 million has been obligated through February 28, 1987.

Question:

What effect will tighter security procedures and more restrictive bidding requirements in the Omnibus Diplomatic Security and Antiterrorism Act of 1986 have on FBO's overseas construction projects? Will such provisions increase the time and cost to complete projects? If so, what will be the estimated additional time and cost for a typical construction project?

Answer:

We estimate that the new requirements under the Omnibus Act of 1986 will increase the cost of the average project between 8 and 12 percent. This includes costs of the new site security program which are funded by the Bureau of Diplomatic Security.

There have been some necessary time delays to phase out the Percy procedures and to implement the new Omnibus procedures and requirements. The new requirement that Congress be notified on each major fund expenditure (site acquisition, A&E selection, construction contract, and furniture and furnishings

procurement) is expected to add 70 to 80 days to each project. However, we do not anticipate time delays because of the new rules once the construction contracts are awarded.

LONDON

Question:

We have sold 3 properties in London for about $2,200,000. What are the plans for using this money to acquire needed properties in London?

Answer:

Three London properties were sold for about $3,200,000. The Department and the Embassy are committed to using these proceeds of sale to acquire other properties in London. A Marine House and staff housing are priority considerations. No purchases have been made, as yet. A potential Marine House was identified, but the owner rejected the USG offer. The Embassy is actively searching this expensive and complex market for properties suitable to our real estate rationalization program.

Question:

Recently the Embassy was able to arrange a leasehold on an apartment that is estimated to save $1.3 million over a similar short-term lease. We will pay rent for 8 years, and then a final payment of 10,000 pounds, and have it for the next 16 years cost free. That seems like a good deal. Are we trying to make similar transactions? For instance, don't you have a town house in mind in the Eldon Grove section?

Answer:

The facts of the transaction for 28 Bryanston Square, London, are as follows: The Department authorized the purchase of a 26-year leasehold (as opposed to freehold) under a lease/purchase option agreement. Rent of $442,000 will be paid over an eight-year period, after which the Department may exercise its option to pay $15,500 to secure our tenancy for an additional 18 years. Over the 26-year period of the lease, the average annual cost will be about $17,600 per year, compared to about $41,000 per year for similar property rented under short-term leases. The saving, without adjusting for inflation, is about $609,000.

This February the Department authorized a lease/purchase agreement for a freehold property at 4 Tower Close, off Eldon Grove Street, Hampstead, London. The U.S. Government will obtain freehold on this property after 16.5 years, having invested about $1.3 million. A present-value analysis shows that this is to the Government's advantage.

There are no other lease/purchase requests pending for London.

Question:

While I understand that the Marines are not "living in squalor" at Carlton Mansions, we all agree that their housing could be improved. London has requested funds from FBO to raise the condition of the Marine House above its currently minimally adequate standard. Does FBO intend to fully cover that request?

Answer:

Embassy London recently requested $92,590 for required repairs to the Marine House, which were fully funded on March 13, 1987. The Department is also proceeding with efforts to identify properties suitable for new quarters.

UNITED NATIONS

Question:

While we will take up Contributions to International Organizations next week, I have a couple of questions about the overall policy. Last week, Assistant Secretary Keyes told the Foreign Relations Committee that the Reagan Administration wants to pay the funds withheld this year and modify the Kassebaum Amendment. The budget proposals include freeing $130,000,000 appropriated this year for expenditure, but the 1988 estimates are based on Kassebaum continuing in effect.

If Kassebaum is modified, how much additional would be required for our Contributions to International Organizations?

Answer:

The Department's FY 1988-89 Authorization Bill includes a provision to amend the Kassebaum-Solomon Amendment. The Amendment authorizes such additional sums as may be necessary to restore U.S. assessed contributions in the context of the FY 1988 budget. These monies would be released upon Presidential certification that the UN and specialized agencies have adopted or are making substantial progress in adopting improved budgetary decision-making procedures and are implementing them. Once appropriate offsets are found, we would plan to submit an FY 1988 Budget Amendment for up to $111 million to restore U.S. contributions to their proper level in the FY 1988 budget.

Question:

Last Saturday, the President said in his weekly radio address that Congress ought to adopt his budget. Assistant Secretary Keyes said last week he didn't know where the funds to modify Kassebaum will come from. Will he know by next week?

Answer:

We are working with the Office of Management and Budget in an effort to identify appropriate offsets for our planned FY 1988 Budget Amendment. We hope to work this out shortly.

UNIFIL

Question:

There is a Supplemental Budget request of $21,600,000 to partially offset United States' arrearages to the U.N. Interim Force in Lebanon. What is the amount of our arrearage and how much do the Soviets owe?

Answer:

The Status of Contributions to the United Nations Interim Force In Lebanon (UNIFIL) Report as at 31 December 1986 shows that United States has outstanding contributions of $30,540,000

and the Soviets (including the Byelorussian and Ukrainian) have $172,300,000 outstanding.

Question:

In 1986 we withheld $18,000,000 for UNIFIL. The Russians, who never paid for peacekeeping before, came up with $18,000,000. What's wrong with that?

Answer:

The Soviets have shown no great interest in the stability of southern Lebanon. Their decision to pay some of their arrearage was purely tactical and political, an effort to make points with the Arab supporters of UNIFIL. The U.S. has a major interest in maintaining the peace in southern Lebanon and helping to reduce the prospect for future conflict between Israel and its neighbors. UNIFIL is critical to that peacekeeping effort. Our contribution to support UNIFIL clearly serves U.S. interests, whatever the Soviets do or do not do.

The Soviet Union abstained on the Security Council resolution creating UNIFIL in 1978 and on each mandate renewal resolution until April 1986, taking the position that its abstention absolved it from financially contributing to UNIFIL's support. It voted for the mandate renewals in April and July 1986 and January 1987, stating in April that it would begin paying its assessments, which it has done, but not its arrearages. The Soviet Union's assessment comes to approximately $23 million annually.

While there is no direct evidence that the U.S. shortfall in meeting our assessment (resulting from the Congressional cut in our budget request) stimulated Soviet payments, Moscow undoubtedly is pleased to see the U.S. rather than the USSR become the target of criticism for failure to meet its obligation to fund its UNIFIL assessment.

In sum therefore, the Soviet payment does not make up for our failure to pay, legally or otherwise, and should not be perceived as doing so. The Soviet assessment for UNIFIL, $13.1 million (including Byelorussia and the Ukraine) for the mandate period from December 19, 1986 to July 13, 1987, for example, is considerably less than our assessment of $29 million for the same period. The Soviet payment does not compensate for our shortfall nor prevent that shortfall from contributing to UNIFIL's growing deficit--or indeed from affecting the ability of UNIFIL to fulfill its mandate. At a more basic level, other countries cite our shortfall as bringing into question the U.S. commitment to UNIFIL, a concern as important as the financial hardship to the troop-contributors of the peacekeeping force.

Question:

UNIFIL seems able to continue despite our withholdings. How are the troops being sustained?

Answer:

The personnel costs for maintaining the UNIFIL troops are being borne almost entirely by the troop-contributors themselves. UN funding is sufficient to cover little more than the cost of locally-purchased goods and services necessary to maintain the Force. The need to cover the personnel costs is particularly hard on the poorer troop-contributors (Ghana, Fiji

and Nepal), who supply some of the most effective soldiers in UNIFIL. Moreover, all of the troop-contributors understandably resent having to shoulder such a disproportionate share of the financial burden while their troops are risking--and sometimes losing--their lives carrying out UNIFIL's mission. Their support of the principle of peacekeeping has so far kept them in the field, but we cannot expect them to accept the human and financial costs indefinitely in the face of perceived declining U.S. commitment to the Force.

THE ASIA FOUNDATION

Question:

Mr. Secretary, you are the overseer of foreign policy. Please explain why the National Endowment for Democracy is budgeted for a $10,000,000 increase, while The Asia Foundation is only in for a current service adjustment.

Answer:

The National Endowment for Democracy was authorized at a start-up level of $31.3 million in FY-1984. Because the Endowment did not get underway until well into that fiscal year, a partial budget of $18 million was approved. For FY-1987, the Endowment received an appropriation of $15 million, representing a cut of 16 percent from the amount the Congress budgeted for the partial year of FY-1984 and which was less than half of the authorized start-up authorization.

The requested increase of $10 million for FY-1988 is essential to enable the Endowment to sustain current programs and to provide crucial assistance to democrats throughout the world. Working through organizations affilitated with the Democratic and Republican parties, the AFL/CIO and the Chamber of Commerce, the Endowment is active in Latin America, Asia, Africa, and (to a lesser extent) in Eastern and Western Europe.

The requested increase for the Endowment is in no way intended to reflect poorly on the The Asia Foundation. The Department has the highest regard for the Foundation and its programs in Asia. The requested current service adjustment will enable the Foundation to continue to carry out its highest priority projects.

Question:

How much support did the Department give to the Foundation? Didn't the Department at least support the $2,500,000 required for the second year of the Foundation's work in the Philippines, which Ambassador Bosworth has termed the most important American project in the Philippines?

Answer:

The Department's support for The Asia Foundation is reflected in our public statements over the years and in the continuing cooperation between our diplomatic missions abroad and the Foundation's field offices.

The Department supports the Foundation's work in the Philippines, as we support its work in other countries. The Foundation, however, has the latitude to program its appropriated

funds according to its own priorities. The Department would support a decision by the Foundation to continue its programs in the Philippines in 1988 at a high level.

MOSCOW

Question:

Assuming NBS make a positive report, when does the Department think the security inspection will allow FBO to proceed with finishing the building?

Answer:

The Moscow technical inspection program is programmed to continue until the end of this calendar year (1987). There is a report due in August which will more clearly identify the program completion date.

Question:

Senator Rudman and I met with former Secretary of Defense Schlesinger exactly a month ago today. How is his investigation proceeding?

Answer:

The study is progressing on schedule. Mr. Schlesinger will be visiting Moscow as part of his investigation. His report will be forthcoming shortly after his return, which will be in the latter part of May.

Question:

We have appropriated $192,033,000 for the Moscow complex. Again assuming you get the clearance to proceed, can the project be completed within the amount now available?

Answer:

Seven of the eight buildings of the complex are substantially complete and are occupied. The office building is approximately 65% complete. Funds appropriated are sufficient to complete construction of the project, assuming that major demolition for security reasons will not be required. If major demolition is required, additional funding will be needed. The amount of funding would depend on the nature and extent of demolition and reconstruction required.

KIEV

Question

Has there been any change in the plans for Kiev?

Answer

The Soviets finally replied to our Kiev proposals of May, 1986, in March of this year. We are presently studying the Soviet response. We are also reviewing our plans for the Kiev Consulate in light of present political, security, and budget considerations.

Question

When is it now expected that we would open an office in Kiev?

Answer

We are not able to give an estimated opening date at this time. We will not send any personnel to Kiev or allow any Soviets in New York until we have an agreement with the Soviets which permits us to use American labor and materials to do all work we consider necessary to prepare the Kiev buildings for our occupancy.

Question

How much is allocated for 1987 and 1988 for Kiev? Will the 1987 money lapse?

Answer

The Department reprogrammed $2 million for Kiev in FY 1987. These funds will also be available in FY 1988. If Kiev does not open, the funds will be used to cover other mandatory unbudgeted requirements within the Department, and reprogrammed once again in FY 1988.

Question:

In last year's hearings it was indicated that the Department intends to use the Streletskaya complex. These were the buildings that were under construction for us when we left Kiev at the time of the Soviet invasion of Afghanistan. In view of the Moscow situation, do we contemplate demolishing the buildings and starting over again?

Answer:

The Department currently is examining the program and security options in Kiev. No new decisions have been made at this time.

LEBANON: EMBASSY BEIRUT

Question:

Mr. Secretary, when you appeared on "This Week with David Brinkley" last month (February 8, 1987), you said the people of Beirut "have a plague" and should be isolated from the rest of the world. I agree, and the first thing we ought to do is isolate ourselves from that irresponsible community by closing our Embassy. Certainly if literal plague was present in Beirut, we would remove our personnel, and since you made the analogy, don't you agree that conditions compel us to withdraw our personnel?

Answer:

We have kept open the Embassy in Beirut despite the risks to our personnel because an official American presence on the ground in Beirut is in the interests of the United States.

Closing the Embassy in Beirut in the face of terrorist

threats would indicate clearly to those whose objective is to rid Lebanon of any Western presence that terrorist tactics work. Further, Beirut is not the only American Embassy operating in dangerous circumstances. Closing Embassy Beirut would invite further attacks wherever and whenever U.S. policy or the U.S. presence posed obstacles to terrorist aims.

More broadly, the Embassy's reporting on the situation in Lebanon provides decision-makers in Washington with information that continues to be critical to the formulation of policy. Despite severe constraints on the movements of Embassy personnel, the staff at the Embassy has successfully maintained contact with nearly all factions in Lebanon.

Finally, the presence of the Embassy in Lebanon demonstrates to the Lebanese people and to the beleaguered Lebanese government that we are prepared to do our part to help end fighting in Lebanon, and to support efforts for a political dialogue among the Lebanese.

Obviously, the security of our staff is a major concern. The number of personnel is closely monitored, and maintained at the minimum level needed to do business. No dependents are permitted at post. Our employees operate under careful security precautions.

Gift to Australia

Question:

Mr. Secretary, in view of the overall budgetary situation and the particular financial pinch that the Department of State is now in, how is it that you are recommending a $5,000,000 bicentennial gift to Australia?

Answer:

Australia will begin celebrating its bicentennial year on January 26, 1988. Prime Minister Hawke has asked the United States for a government-to-government gift for the Bicentennial in the form of a wing and permanent U.S. exhibition for the Australian National Maritime Museum. The President has approved U.S. participation and has urged Congress to appropriate $5 million for the gift. The Bicentennial is approaching rapidly, which necessitates funding the gift now, even though the overall budgetary situation is tight. Australia is one of our oldest and staunchest allies. The Australian Government contributed, in current value, $25 million to the U.S. in 1976 for our Bicentennial. Failure to reciprocate would be taken as an insult by a close friend and strong link in our security chain. Several other countries have already announced substantial National Gifts to Australia for its Bicentennial.

ANGOLA

Question:

What is the justification for not asking American oil companies to leave Angola since they operate the oil fields that account for 90 percent of Angola's GNP and almost all of its hard currency used to purchase East Block arms?

Answer:

U.S. policy towards Angola, in general and as concerns commercial transactions, is based on our understanding of the full range of American interests in southern Africa. These interests are strategic as well as political. Strategically, our interest is in diminishing and if possible eliminating Soviet and East Bloc influence in the region. Vis-a-vis Angola, that means gaining Cuban troop withdrawal. It also means maintaining access to strategic resources. Angola is a new and potentially major source of non-Opec oil. Also, given the need to safeguard American jobs in an increasingly competitive world economy, it is worth noting that Angola is also a potentially lucrative market for U.S. exports. Politically, our goal is to help secure an end to violence in Angola and Namibia and a turn towards democratic government fully protective of individual and minority rights.

To further these interests, the U.S. has brought to bear a wide range of diplomatic, economic and other pressures on the MPLA. But, as we said in the letters to which you refer, it is not our aim to wage war on the Angolan people. Furthermore, calling on American firms to leave Angola would not seriously affect the Angolan economy; there are many other Western nations eager to take our place. Rather, the Administration has focused its efforts on achieving a negotiated diplomatic agreement on the independence of Namibia based on U.N. Security Council Resolution 435 and the withdrawal of Cuban troops from Angola.

In this effort, we have maintained contact with all significant parties to the Angola/Namibia conflict. That has included, as it must, the MPLA government in Luanda. On the other hand, we share the widespread sympathy for UNITA's struggle against Soviet/Cuban imperialism and we are providing UNITA with what we believe is appropriate and effective support in this regard. UNITA is a legitimate nationalist movement that cannot be excluded from a role in the political life of Angola. There must be a genuine process of national reconciliation if there is to be real peace in Angola. Our policy attempts to realize both a reduction of Soviet influence and peace in Angola by focusing our efforts where we believe we can best achieve results, the withdrawal of foreign forces -- Cubans from Angola and South Africans from Namibia. The achievement of such an agreement would be the best way to further all our goals in the region.

Question:

What are the private oil company "interests" that outweigh U.S. national interest?

Answer:

It would be wrong to assume that the business interests of the oil companies and other American firms operating in Angola are necessarily antithetical to the U.S. national interest. As I previously pointed out, we believe that the U.S has various interests in Angola and in southern Africa as a whole.

Question:

Why should the Cabinda oil fields not be subject to attack since they are the economic backbone of the Marxist regime?

Answer:

It is inconsistent with US policy to encourage actions which might result in the death of US nationals or the destruction of their property. We also note that it is not for the US to suggest what are or are not appropriate military targets in someone else's war.

Question:

Why has the Administration ignored the 1986 amendment to the Export-Import Bank Act of 1945 which advised the President to block U.S. business transactions which conflict with United States security interests in Angola (you cosponsored this amendment)?

Answer:

The Administration believes it already does what the amendment to the Exim Bank Act suggests. We do not approve U.S. exports to Angola with a military end-use and we do not support Angola's ability to earn foreign currency and thus fund its war against UNITA. Exim Bank has not agreed to any new Angolan business since 1984. Consequently we believe that the recommendations contained in Section 21 of the Act have been respected.

HONG KONG

Question:

Am I correct that the 79 unit building is badly located and poses severe morale problems for our personnel in Hong Kong?

Answer:

The immediate area in which the new apartment building in Hong Kong is located is rather densely developed, with mainly medium- and high-rise apartment buildings interspersed with pre- and post-war composite buildings and a number of educational institutions. The area is perhaps best characterized as a popular residential area for the local middle-class population. The general character of the locality is gradually improving as older buildings are being replaced.

There is resistance from post personnel to moving into the new building. Few westerners or foreigners reside in the area, and there is a lack of adequate storage space and only minimal common areas for recreational and family activities. However, the apartments meet Department of State residential standards both in terms of available living space and quality of construction.

Question:

With the pending reversion of Hong Kong to the Peoples Republic of China, I believe we are committed to a lot more properties than we need. The reversion of Hong Kong is not a new idea. Why did we get ourselves into this deal?

Answer:

While the possibility that Hong Kong would some day become

a part of China was not a new idea in 1981, there was no guarantee that one would be reached. In 1981, the assumption was that Hong Kong would continue in its then-current status. Moreover, in 1981 our mission was faced with steeply increasing rental costs for housing. The solution to this dilemma was to find a way to control housing costs while assuring that adequate housing would be available.

The project at Bonham Road was predicated in 1981 on an existing staffing level which was expected to remain relatively constant. The decision to acquire the 79 apartments to replace leased properties was made because rents were very high and rental costs were continuing to escalate.

The activities of our mission in Hong Kong will continue after reversion of the Crown Colony to Chinese control even if as a constituent post of our embassy in Beijing. The Bonham Road apartments meet current Department standards for staff housing. However, we are sensitive to the objections raised by consulate personnel and other agencies at post. If a viable alternate to the Bonham Road property can be identified, it will be considered. However, the number of USG personnel in Hong Kong totals 177 and the current Government-owned properties (including Bonham Road) total 105 units.

Question:

In making this deal was it anticipated that the United States would at least break even?

Answer:

Yes. A study of the options in 1981 clearly showed that ownership of apartments, rather than rentals, made the most financial sense. As rents continue to escalate sharply in Hong Kong, we remain persuaded that ownership -- of the required number of units -- is in the USG's best financial interest.

Question:

We have a recent value analysis that shows that with a 10 percent appreciation rate, the apartment building will be worth less than we are putting into it. As your VISA office can tell you, they are leaving Hong Kong in droves. Do you really think a 10 percent appreciation rate can be sustained?

Answer:

If the Bonham Road project has taught us nothing else, it has taught us that the future cannot be predicted with any certainty. However, according to the international real-estate management consulting firm of Jones Lang & Wootton, the projected 10% annual appreciation rate was both realistic and fair in view of the trend between 1970 and 1981.

With regard to the building being worth less after the 10-year rental period than the amount invested, it should be noted that we also would have the benefit of having occupied the building throughout the 10-year period. Moreover, the appreciation rate would have to be only one percentage point higher than the current estimated projection in order to break even at that time. A key factor, of course, is that after the 10-year lease/purchase period we would own the property without further rental payments.

We do not expect the bottom to fall out of the real estate market in Hong Kong in 1997. In our experience, rents in China are even higher than in Hong Kong. We believe that ownership of residential property will remain financially better than renting.

Question:

JAPAN

Ambassador Mansfield has written to me as a follow-up to a meeting I had with him in Tokyo last November. In his letter he noted that State provides operating expenses for all the 21 agencies located in Japan. He thought that the other agencies should reimburse State for such things as water and sewage, electricity, and heating of their housing and office space.

1. Has the Administration thought of making a proper reduction in State's base budget and transferring the funds to the other agencies so they can reimburse State?

Answer:

The Department is now studying all functions and costs associated with the administrative support services it provides to other agencies overseas. We intend to complete the study for consideration in conjunction with the FY-1989 budget process. Meanwhile, the attached report describes the results of our effort thus far and describes the steps being taken to complete the study.

Attachment: Report - Sharing the Costs of Administrative Support Services Generated by U.S. Goverment Programs Overseas.

U.S. DEPARTMENT OF STATE

SHARING THE COSTS OF ADMINISTRATIVE SUPPORT SERVICES GENERATED BY U.S. GOVERNMENT PROGRAMS OVERSEAS

A PROGRESS REPORT

In its Report No. 99-669, the Subcommittee expressed concern that the Department of State funds many of the housing and office expenses generated by other agencies overseas. The report asks that the Department develop a plan for reimbursement of the full expenses incurred by non-State Department personnel to include all of the costs of housing, office space, utilities, securities improvements, training, and related expenses for employees of other Departments. This is a progress report describing the Department's efforts to date in developing this plan. It also describes the scope of work yet to be done and sets forth the timetable for completing this work.

While the Subcommittee's request is focused on distributing the costs of the U.S. Government's real property overseas, it raises important issues which apply equally to other administrative support areas including personnel services, budget and fiscal services, information management and communications support, medical services and general services such as procurement, supply, and vehicle operations. Our study, therefore, will consider all of these overseas administrative support services and is based upon the following tenets:

1. The cost-reimbursement system must facilitate the efficient and equitable provisioning of administrative support to all U.S. Government agencies overseas.

2. The cost-reimbursement system should, wherever practicable, make user agencies aware of and responsible for the full support costs generated by their overseas programs.

3. All agencies have a stake in controlling the amount of support costs generated by their overseas programs and the cost-reimbursement system should not impede agencies in the appropriate exercise of their management prerogatives.

BACKGROUND

Currently, other agencies reimburse the Department for most overseas administrative services under a method called the Foreign Affairs Administrative Support (FAAS) system. FAAS stipulates that the Department will provide and fund the basic administrative resources necessary to support its own overseas programs. To the extent that these resources (called the CORE) have the capacity to support other agencies, such support is provided free-of-charge. State is reimbursed only for those incremental resources established as being necessary to support other agencies. These added resources are referred to as DAS for Distributed Administrative Support.

FAAS is the latest of four cost-distribution methods employed by the Department since the end of World War II. It is based on the premise that the interests of efficiency and overall economy are best served by the expansion of the

Department's basic administrative capacity to include the common administrative requirements of other agencies, thus preventing duplicative staffing and resources. Originally, the cost-sharing concept was similar to the present method in that other agencies reimbursed only for the added costs of resources. The rapid growth of numerous programs, including the Department's, however, made the segregation of added costs too difficult and a "per capita" system was adopted in an effort to simplify cost-distribution.

This "per-capita" system merely divided total country administrative support costs by the number of persons serviced. The shortcoming in this method is the assumption that each person in each program received equal levels of support. Experience has proven that this is not the case.

These mechanisms gave way to the Shared Administrative Support (SAS) system in which individual services were identified and shared according to the workload generated by each agency in each administrative function.

The present system resulted from concurrent Departmental and GAO studies which concluded that the Department should budget and fund all costs of the basic administrative structure required to support the Department's permanent programs without regard to the less permanent and ever-changing programs of other agencies. GAO's concern was that the Department's appropriation, prior to FAAS, did not reflect the full cost of its overseas operations. The Department's concern was in stabilizing its basic share against the significant swings resulting from the increased and decreased participation of other agency programs.

In order to create State's CORE, Congress approved appropriation transfers of $77 million from other agencies to the Department in 1977. In 1981, Congress approved an additional transfer of $23 million so that the Department could assume responsibility for the building operating expenses (BOE) generated by other agencies occupying Government-Owned and Long-Term Leased (GO/LTL) properties overseas. Accordingly, the building operating expenses associated with most GO/LTL properties are funded entirely by State without regard to occupant. They include costs of the building and grounds operating force, service maintenance contracts, utilities and taxes and assessments. Either directly or through the FAAS system, State is reimbursed only for those acquisition and building operating costs associated with short-term leased properties.

The Issues

The FAAS system, implemented with GAO and Congressional approval, has the theoretical effect of overstating the Department's costs while understating costs of other agencies. That theory is rooted in the FAAS principle that to the extent State's CORE has a capacity to service other agencies, such services are provided free-of-charge. However, basic administrative support services are common requirements of every USG agency overseas and the methods by which these services are provided and funded have significant impact on those agencies in terms of mission objectives and appropriations. Since the issues involved affect both the budgets and programs of the entire U.S. foreign policy effort, they must be coordinated with key elements of the Executive and Legislative branches including the Appropriations Committees of the House and Senate, the Housed Foreign Affairs Committee, the Senate Foreign Relations Committee, the House Government Operations Committee, the General Accounting Office, and the Office of Management and Budget.

Accordingly, the Department's review of the FAAS funding system will be made in the following context:

1. In the overall sense, how should the USG conduct necessary administrative support operations?

2. Should administrative support be consolidated in one agency or are overall USG interests better served by infusing an element of competition into the process?

3. Should the menu of services be available to the using agencies on an elective basis or a mandatory basis? Perhaps a third option in this sense would be to make services available by designating an agency as the "preferred but not mandatory" provider of services.

4. If it is determined that consolidated provisioning of administrative support is in the best interests of all U.S. programs overseas, should State be the agency designated to fill that role?

5. If the answer to item 4 above is yes, then what steps must be taken to establish administrative support as a major mission of the Department?

The Department shares the Committee's concern that under the present cost-distribution system, users are not responsible for the full-costs being generated by their overseas programs. At the same time, reforms should not undermine those principles of economies of scale and equal provisioning of services so vital to the effectiveness of U.S. Government programs overseas. Therefore, before submitting final recommendations to the Congress, we shall examine each type of service in the context of the issues enumerated above. We shall explore administrative support in terms of how services are provided and the effect of alternate cost-sharing systems on the budgetary resources of the participating agencies.

The Options

Thus far, our examination of the issue reveals four options. They are:

1. Retaining the current system but purging it of those costs which are readily identifiable as directly attributable to specific agencies. For example, building operating expenses of a specific residential or non-residential property occupied solely by another agency should be directly funded by that agency and not distributed among all agencies at post. The goal here is to assure that only the "overhead" associated with administrative support is distributed among the participating agencies.

2. Adopting a system which distributes the costs of each administrative support function to users purely upon each agency's share of workload.

3. Adopting a system which acknowledges the administrative support capabilities of other agencies. This means that the cost-sharing method in each country would be determined based upon an examination of each agency's administrative support needs and each agency's capability to provide service to all agencies. It would differ from the current and past systems which assumed that State was always in the best position to provide consolidated administrative support services to all agencies. Among the Foreign Affairs Agencies, only State

and the Agency for International Development have significant administrative support infrastructures in place overseas. We want to examine the feasibility of using AID's infrastructure where they are in the best position to provide specific services efficiently.

For example, AID has established in many countries an excellent procurement capability aside from the Department of State's staff. Where AID is procuring goods and services commonly required by State and other agencies at post, these agencies would simply "piggy-back" AID's contract. No reimbursement is envisaged under this scenario since the contract would be structured so that users paid the vendor directly based upon the amount of goods or services received.

4. Adopting Working Capital Fund or Industrial Fund mechanisms.

NEXT STEPS

In concert with the major serviced agencies, State's review will proceed in the following steps:

1. We will recalculate the costs of basic services and facilities provided at the overseas posts. This recalculation will compare costs to each agency under the current FAAS system against costs which would accrue to agencies based purely upon workload generated. We believe this is a crucial first step in terms of assessing budgetary impact across agency lines.

2. Also included in this calculation will be costs associated with Government-Owned and Long-Term Leased overseas properties such as acquisition, maintenance and repair, furnishings and related personnel and operating expenses.

3. Security costs will also be examined. At this point, however, we share the Inman Panel's recommendation and the Congressional intent expressed in its authorization and appropriation acts, that one agency should be charged with responding to the changing security environment in a given country. We believe any cost-distribution system should foster the principle that security support is driven by what is necessary to protect the American presence and not become a function of how much security a given agency can afford.

4. In addition, our review will examine telegraphic communications in Washington and overseas to determine the feasibility and best method for sharing personnel and operating costs of this vital program.

5. Finally, we shall examine the feasibility of sharing the costs of purchasing, shipping and maintaining motor vehicles overseas.

We have already notified the Inter-Agency Council on Administrative Support of this effort. The Council, chaired by the Department, was established to oversee the current FAAS cost-reimbursement system and is comprised of the major users of the Department's overseas administrative support services. It includes AID, USIA, the Defense Intelligence Agency, the Foreign Commercial Service of the Department of Commerce, the Foreign Agricultural Service of the Department of Agriculture, and the Peace Corps.

Any revisions to the current cost-sharing system will have significant programmatic and budgetary impact not only on State and the Council's member agencies but also on more than 100 other federal programs now receiving State's support overseas. Final recommendations to OMB and the Congress on this issue will be developed in close consultation with the Council agencies and shared with all others. Our goal is to have these recommendations and their budgetary implications finalized for OMB and Congressional consideration as part of the Fiscal Year 1989 budget process.

Question:

While in Japan, I found concerns that the consulate in Fukuoka might be closed. What are the plans for Fukuoka?

Answer:

The consulate in Fukuoka performs important consular, economic reporting, trade promotion, and investment promotion functions. There are no plans to close this post.

DIPLOMATIC SECURITY

Question:

In January the first group of 12 contractual personnel for Moscow and Leningrad were hired. However, they were not able to depart because security investigations weren't completed and the Soviets wouldn't give them visas. Have they now departed and who pays for the time they were waiting for security investigation and visas?

Answer:

At the present time, 15 persons, all with full security clearances, are in place in Moscow under the Department's support services contract with Pacific Architects and Engineers. Another nine employees are fully cleared and available for travel to Moscow, and more are scheduled for Department orientations the week of April 6 and April 20.

The Department of State pays the salaries of employees who may not travel to post due to administrative delays.

Question:

The President's original Central American plan also included taking $17,000,000 from FBO. This was the money for the Chancery in Doha, Qatar. Am I correct that this project has been deferred due to your plans to downsize certain embassies. Are there any other funded projects that are to be downsized?

Answer:

The Doha Chancery project was originally funded for $16,448,000. Of this amount $480,000 has been spent on architectual fees. The construction site is under a long-term lease agreement.

Doha, together with ten other posts, is under consideration as a possible small embassy model post. Review of the results and tentative findings of the current trial phase is expected after June 30 and a final decision on whether or not Doha will

be included in the small embassy model program is scheduled for late this year. In the interim, Doha will remain in a pending status; we expect that it may become necessary to temporarily reprogram the funds for higher priority projects. No other funded capital projects are in this category.

Question:

Mr. Spiers, as you know, Senator Rudman and I were compelled to write Secretary Shultz about the delays in these monthly reports. All we've ever wanted is a copy of the program reports that you receive. Is this the best information you get, 48 to 51 days after the fact?

Answer:

Public Law 99-500 stipulates that the Department shall report to the appropriate Congressional committees on the status of obligations for the Diplomatic Security program every 30 days after passage of this act. The Public Law was passed October 18. This means that reports on the status of obligations are due on the 18th day of each succeeding month. Because it takes about a month to obtain the worldwide financial data to do the reports, we are submitting the reports 48 days after a particular month ends. We had discussed this process with your staff and thought we were in agreement concerning the due date of these reports and the month they would cover.

Question:

On Monday, we received the monthly report for January on the Diplomatic Security program. The report indicates that only 135 of the 669 positions are filled and that only $122,735,000 of the $1,042,104,000 has been committed.

We are being pressed to keep the Supplemental Appropriations bill deficit neutral. In view of the demonstrated lag in the Diplomatic Seucrity program, shouldn't we use the balances to cover the high priority supplemental items?

Answer:

Late passage of the FY 1986 supplemental and the delay in receiving funding in the FY 1987 Continuing Resolution meant that we had a late start in filling positions and funding our programs. It took several months to gear up for the large increase of 669 positions and $1.042 billion granted by the Congress in FY 1986-7 appropriations for diplomatic security. However, the preliminary work has been completed, and substantial filling of positions and funding of programs are now underway. Regarding positions, we have provided the Committee staff with a hiring plan which reflects the Department's intent to hire 536 positions in the Salaries and Expenses appropriation by the end of FY 1987. Similarly, large portions of funding will be obligated in the latter part of FY 1987 since our many of our diplomatic security programs are now underway.

Because we are making such significant progress in filling the remaining portion of our new positions and obligating/committing funds during the latter part of FY 1987, we believe that these resources should not be diverted to cover the pending FY 1987 supplemental appropriations bill. Also, transfer of diplomatic

security funds to this supplemental appropriations bill will mean a delay in critical worldwide programs to protect lives and property.

Question:

The monthly report indicates that residential security is underway at 17 posts. However, 8 of these posts are only rated medium threat locations, and another -- Ottawa -- is considered a low threat post. Why aren't we concentrating on the high threat posts?

Answer

The January report on program activities prepared by the Bureau of Diplomatic Security indicated that 26, not 17, posts had received funding for their residential security programs. Of these 26, 14 are listed as high threat posts. Ottawa was included on this list by error. See program title Perimeter Security.

The figures do not completely reflect the on-going residential security programs at 73 more posts. Since many aspects of this program are new, these posts are assessing their needs and preparing funding requests in accordance with our recently developed guidelines.

In March we began to receive contractor personnel to staff some residential security positions here in Washington. They are currently undergoing training and familiarization and will start visiting posts in May to assist with residential programs. With the addition of these people, we expect the program to rapidly meet the residential security needs of the foreign service. In addition to guidance and support, we have been able to provide funding to some of the lower threat posts which submitted plans and requests for funding. The residential security program is on track and moving forward rapidly.

Question:

The President's original request for Central America was offset by transferring $8,000,000 from Security. The Department has furnished a hiring plan indicating that the 536 new positions in the Bureau of Diplomatic Security will be filled by September 30th. The hiring plan will be made part of the record.

A. Why is it that we hired 96 special agents in October and didn't hire any more until April? We then hire 48 more in June and 45 again in August and September; why can't we hire them in May and July.

B. It has taken 5 months to hire 7 security engineers. Why does the bureau now think it can hire 10 a month for the rest of the year?

Answer:

DS's special agent hiring plan was established based upon the availability of training billets at the Federal Law Enforcement Training Center in Glynco, Georgia. All special agents must successfully complete this program before they can undertake their security responsibilities. Since the Center trains employees for all law enforcement agencies, the Bureau of Diplomatic Security must coordinate our training requirements with those of other groups.

DS is cautiously optimistic about our ability to increase our security engineer intake in the second half of FY-87 for two reasons. The first is that we have established a "pipeline" of candidates which provides a far more reliable source of employees than we have ever enjoyed before. Secondly, we have closely followed developments in the engineering field in recent months and we hope that some of the layoffs predicted for various sectors will provide us with a potential source of high-quality candidates. Nevertheless, the recruitment and employment of security engineers remains our most difficult staffing challenge, both because of the high quality of candidate we require for our program and because of the salary differences between private sector and Federal employment opportunities.

Question:

The Omnibus Diplomatic Security and Anti-terrorism Act of 1986 requires the Department to strengthen security procedures in design and construction of diplomatic facilities. What has the Department done to date to meet this requirement? How much funding is required to implement these procedures?

Answer:

The Department issued to all foreign service posts on December 16, 1986, Regulations to Strengthen Security Procedures for Diplomatic Construction Projects. The Regulations addressed (a) security clearances for prime contractors and other construction related personnel, (b) construction document classification and handling, (c) site security plans and procedures, and (d) responsibilities of site security managers and regional security officers.

In addition, Classification Guidelines have been distributed which pertain to the protection of sensitive construction-related documents. Further, for all new diplomatic construction projects, the Department has developed a generic pre-design analysis and review which focuses on the scope of the project and the threat level at a given post. Based upon this analysis appropriate security measures and resources will be applied to the project.

It is anticipated that approximately $2.7 million will be required for each new building project to implement the procedural requirements outlined in the foregoing regulations. In addition, approximately $1 million per year will be required for Washington support costs. We would anticipate additional costs for transit security. The cost is unknown but is under review and development.

Question:

What has the Department done to ensure all posts implement physical and procedural security measures commensurate with the threat? What is the Department spending on security at each post?

Answer:

The Department has provided each foreign service post a comprehensive Physical Security Standards handbook which contains current data developed by the Department for use in enhancing the physical security posture of overseas installations. On March 27, 1987, the Department forwarded to all foreign service posts a telegram entitled Physical Security Standards and Acquisition of Property. This message sets forth policies and procedures for requesting waivers to the published physical security standards or for acquiring new or modifying existing installations.

A Standards for Security Program Design handbook was distributed to the regional Associate Directors of Security for use by them when reviewing procedural security measures. It discusses security concepts and includes matrices which list the various security program elements required or optional at specified threat levels. Measures such as vehicle inspection for bombs, identification badges for employees, parking on embassy compounds, and interim security measures are included in the handbook.

During this fiscal year the Department has obligated $36 million for security improvements at 102 posts. Attached is a recapitulation of the cost by post:

Report 2 Commitments And Obligations By Post

2I. Summary - By Post, Country And Bureau

Appropriation/Allotment: 1970113 10380 1970113 2048S 19X0113 20486 19X0113 20487

POST CODE	POST NAME		Total Oblig/Comms
161084	USUN NEW YORK	USU	26,797.00
			26,797.00
			26,797.00
310301	NASSAU	NSS	10,000.00
	BAHAMAS		10,000.00
310601	BRASILIA	BRA	256,685.00
310607	RIO DE JANEIRO	RDJ	3,000.00
	BRAZIL		259,685.00
310701	GEORGETOWN	GEO	5,705.00
	GUYANA		5,705.00
310801	SANTIAGO	SNT	23,430.00
	CHILE		23,430.00
311201	SAN JOSE	SNJ	110,699.00
	COSTA RICA		110,699.00
311601	SANTO DOMINGO	SDO	10,240.00
	DOMINICAN REPUBLIC		10,240.00
311801	QUITO	QTO	1,820.00
	ECUADOR		1,820.00
312001	SAN SALVADOR	SNS	425,845.15
	EL SALVADOR		425,845.15
312201	GUATEMALA	GTM	4,699,998.66
	GUATEMALA		4,699,998.66
312401	PORT-AU-PRINCE	PTP	65,066.65
	HAITI		65,066.65
312601	TEGUCIGALPA	TGG	3,910,989.52
	HONDURAS		3,910,989.52
312701	KINGSTON	KNG	21,302.00
	JAMAICA		21,302.00
312803	GUADALAJARA	GDL	120,000.00
312819	HERMOSILLO	HRM	55,183.00
312881	MEXICO	MEX	187,778.00
	MEXICO		362,961.00
313001	MANAGUA	MNG	1,700.00
	NICARAGUA		1,700.00
313201	PANAMA	PNM	2,530,004.82
	PANAMA		2,530,004.82
313601	LIMA	LMA	100,172.06
	PERU		100,172.06
314001	CARACAS	CRS	5,667.45
	VENEZUELA		5,667.45
314201	PORT-OF-SPAIN	PTS	7,500.00
	TRINIDAD AND TOBAGO		7,500.00
	AMERICAN REPUBLICS		12,552,786.31
320601	VIENNA	VNN	48,422.00
	AUSTRIA		48,422.00
321201	BRUSSELS	BRS	276,044.00
	BELGIUM		276,044.00
321601	VALLETTA	VLL	1,500.00
	MALTA		1,500.00

Appropriation/Allotment: 1970113 10380 1970113 20485 19X0113 20486 19X0113 20487

POST CODE	POST NAME		Total Oblig/Comms
321701	NICOSIA	NCS	366,668.48
	CYPRUS		366,668.48
321801	ATHENS	ATH	649,999.50
	GREECE		649,999.50
322681	OTTAWA	OTT	162,326.00
	CANADA		162,326.00
322801	PRAGUE	PRG	37,407.00
	CZECHOSLOVAKIA		37,407.00
323001	COPENHAGEN	CPN	2,489.00
	DENMARK		2,489.00
323202	BELFAST	BLF	1,692.00
323201	LONDON	LND	237,574.45
	UNITED KINGDOM/NORTHERN IRELAND		239,266.45
323401	HELSINKI	HLS	9,200.00
	FINLAND		9,200.00
323602	BORDEAUX	BRD	19,900.00
323601	PARIS	PRS	943,949.23
323607	STRASBOURG	STR	18,925.00
	FRANCE		982,774.23
324001	BONN	BNN	9,530.00
324005	FRANKFURT	FRN	4,900.00
324007	MUNICH	MUN	435,000.00
	GERMANY		449,430.00
324801	DUBLIN	DBL	47,800.00
	IRELAND		47,800.00
325006	PALERMO	PLR	3,675.00
	ITALY		3,675.00
325201	LUXEMBOURG	LXM	1,000.00
	LUXEMBOURG		1,000.00
325601	THE HAGUE	HAG	10,555.45
	NETHERLANDS		10,555.45
326201	OSLO	OSL	3,000.00
	NORWAY		3,000.00
327401	STOCKHOLM	STK	13,741.00
	SWEDEN		13,741.00
327667	US MISSION-GENEVA	UMG	48,810.00
	SWITZERLAND		48,810.00
328201	ANKARA	ANK	8,530.00
	TURKEY		8,530.00
328401	MOSCOW	MOS	77,842.00
	USSR		77,842.00
	EUROPEAN		3,440,480.11
330401	HONG KONG	HNK	52,804.00
	HONG KONG, B.C.C.		52,804.00
330601	JAKARTA	DJK	38,800.00
	INDONESIA		38,800.00
330701	CANBERRA	CNB	4,500.00
	AUSTRALIA		4,500.00
330802	FUKUOKA	FKK	50,000.00
330805	SAPPORO	SPP	50,000.00
330801	TOKYO	TKY	125,000.00
	JAPAN		225,000.00

Appropriation/Allotment: 1970113 10380 1970113 2048S 19X0113 20486 19X0113 20487

POST CODE	POST NAME		Total Oblig/Comms
331012	PUSAN	PSN	30,000.00
331001	SEOUL	SEO	81,693.00
	KOREA		111,693.00
331301	WELLINGTON	WLL	3,540.00
	NEW ZEALAND		3,540.00
331401	MANILA	MNL	393,192.94
	PHILIPPINES		393,192.94
	EAST ASIAN		829,529.94
340501	ALGIERS	ALG	2,344.18
340503	ORAN	ORN	6,536.00
	ALGERIA		8,880.18
340801	MANAMA	MNA	4,438.00
	BAHRAIN		4,438.00
341201	COLOMBO	CLM	400.00
	SRI LANKA		400.00
341602	ALEXANDRIA	ALX	43,000.02
341601	CAIRO	CRO	174,703.96
	EGYPT		217,703.98
342802	BOMBAY	BMB	1,112,298.83
342803	CALCUTTA	CLC	715.00
342804	MADRAS	MDR	891,858.23
342801	NEW DELHI	NWD	17,832.50
	INDIA		2,022,704.56
343201	BAGHDAD	BGH	1,271,355.50
	IRAQ		1,271,355.50
343801	TEL AVIV	TLV	211,035.00
	ISRAEL		211,035.00
344001	AMMAN	AMM	454,507.70
	JORDAN		454,507.70
344102	SANAA	SNA	1,000,000.00
	YEMEN ARAB REPUBLIC		1,000,000.00
344501	KUWAIT	KWT	33,000 00
	KUWAIT		33,000.00
344601	BEIRUT	BRT	132,295.00
	LEBANON		132,295.00
345602	CASABLANCA	CSB	357,000.42
345601	RABAT	RBT	255,163.88
345603	TANGIER	TNG	99,999.95
	MOROCCO		712,164.25
346201	ISLAMABAD	ISL	421,155.00
346205	KARACHI	KRC	308,592.00
346202	LAHORE	LHR	150,000.00
346203	PESHAWAR	PSH	150,000.00
	PAKISTAN		1,029,747.00
346301	MUSCAT	MST	35,599.40
	OMAN		35,599.40
346401	DOHA	DOH	12,300.00
	QATAR		12,300.00
347032	RIYADH	RYD	53,106.00
	SAUDI ARABIA		53,106.00
347601	DAMASCUS	DMS	10,000.00
	SYRIAN ARAB REPUBLIC		10,000.00
348001	TUNIS	TNS	814,499.75
	TUNISIA		814,499.75

Appropriation/Allotment:		1970113 10380	1970113 20485	19X0113 20486	19X0113 20487
POST CODE	POST NAME			Total Oblig/Comms	
	NEAR EAST ASIAN			8,023,736.32	
350401	DJIBOUTI DJIBOUTI		DJI	28,374.00 28,374.00	
351101	GABORONE BOTSWANA, REPUBLIC OF		GBR	1,120,937.00 1,120,937.00	
351201	BANGUI CENTRAL AFRICAN EMPIRE		BGI	1,347,000.30 1,347,000.30	
352201	DAKAR SENEGAL		DKR	5,787.00 5,787.00	
352401	ACCRA GHANA		ACC	135,305.02 135,305.02	
353001	ABIDJAN IVORY COAST		ABJ	100,000.00 100,000.00	
354201	NAIROBI KENYA		NRB	52,141.00 52,141.00	
354301	BUJUMBURA BURUNDI		BUJ	879,999.43 879,999.43	
354401	KIGALI RWANDA		KGL	14,000.00 14,000.00	
355901	NIAMEY NIGER		NMY	6,039,999.70 6,039,999.70	
356201	MOGADISHU SOMALIA		MGD	15,000.00 15,000.00	
356301	LUSAKA ZAMBIA		LUS	59,200.00 59,200.00	
356401	LILONGWE MALAWI		LIL	722,000.57 722,000.57	
357601	DAR ES SALAAM TANZANIA		DRS	8,988.00 8,988.00	
357701	BANJUL THE GAMBIA		BNJ	7,200.00 7,200.00	
358201	KAMPALA UGANDA		KAM	75,274.00 75,274.00	
358401	PRETORIA SOUTH AFRICA		PRA	496,837.00 496,837.00	
	AFRICAN			11,108,043.02	

Question:

The media has report of problems associated with construction of the U.S. Embassy in Moscow. How many other projects are faced with problems such as unacceptable construction practices, delays in obtaining material, design flaws? Please provide a list of these projects, the nature of the problems, and the actions being taken to correct the problems.

Answer:

The problems associated with the completion of the new office building project in Moscow are unique.

Of the twelve other projects currently under construction, problems have led to delays in the completion dates of four. These projects are noted below:

- CALCUTTA -- new USIA office building: Project has slipped several months due to the contractor's unacceptable construction practices involving a diaphragm wall. The situation has been corrected, and the project is now back on track.
- LAHORE -- new Consulate General office building: The contractor had cash flow problems (resulting from slow payments from the Government of Saudia Arabia) which delayed the project. This issue has been resolved, and the project is proceeding satisfactorily.
- MUSCAT -- new Embassy building: Several design inconsistencies and problems with the Omani Government regarding the importation of supplies and equipment for the new building have delayed this project approximately four months. The design differences are being resolved. We continue to work with the Omani Government to resolve the importation issue; however, shipments are no longer being delayed in customs.
- SANAA -- new Embassy building: The start of this design-build project was slightly behind schedule due to several approval delays by the Government of Yemen. Construction is now underway.

Question:

In the past, FBO has been deficient in evaluating the financial soundness and technical competence of potential contractors before awarding contracts. What formal written policies and procedures have been established to correct this problem?

Answer:

A/FBO has developed new policies and procedures to determine the financial soundness and technical competence of potential contractors before awarding contracts. These procedures are now being codified. A/FBO contracting officers currently use as many of the following steps as necessary to determine the adequacy of a proposed contractor's financial capability:

1. certified financial statements (reviewed and approved by an independent auditing firm);

2. Dun and Bradstreet reports;

3. verification of lines of credit from sound financial institutions;

4. requirement of performance and payment bonds from sound and independent bonding entities; and

5. on-site review of the firm's books and records by U.S. Government audit personnel.

The technical capability is determined through pre-award surveys of potential contractors to determine the ability to perform the contract. These surveys include the following:

1. investigation of performance on projects of similar complexity;

2. verification of financial statements through the firm's banks and Dun and Bradstreet reports;

3. requirement for submission of a Critical Path Method (CPM) network for the project before award to assure the firm's understanding of the project; and

4. investigation of the firm's technical and management competence through examination of the resumes of critical personnel and verification of the firm's work on prior projects.

Question:

What procedures has FBO implemented to assure proper coordination between FBO and other key organizational components of the Department during design and construction of building overseas?

Answer:

A/FBO has established within its offices management and technical liaison officers from key organizational elements of the Department and other U.S. Government agencies. These organizations have personnel co-located with their appropriate FBO counterparts to ensure that all FBO building activities have the appropriate reviews and approvals. In addition to design and construction clearances, these liaison officers participate in site selection for new office buildings and are fully engaged in non-capital projects such as public access controls (PAC) and post communication centers (PCC).

Question:

To what extent has the Private Sector Program Manager's Program been implemented? When was the contract signed? Was the contract the result of competitive bidding? On what basis was the contractor selected? What makes this contractor qualified to implement the program? What is the cost of the contract?

Answer:

The Department signed a contract with the Sverdrup Corporation on October 2, 1986, for program and project management services and direct assistance in the fields of planning, programming, site selection and acquisition, and procurement. The contract runs for three years with two one-year options.

The contract was the result of a comprehensive competitive bidding process. A/FBO used a formal source-selection process to evaluate the proposals of competing bidders against a number of evaluation criteria which reflected key attributes likely to indicate the eventual performance of proposers. These criteria were described in the formal Request for Proposal (RFP).

The RFP was designed to satisfy the following A/FBO requirements for a Program Management Contractor:

- an integrated (all-disciplines) program and project management system with an organization, staff, procedures, and computer-based information system for managing projects of the type in the Diplomatic Security Construction program;
- industry expertise in integrating key disciplines (e.g., security, communications, and fire and life safety) into the design and construction process;
- more rapid buildup and phasedown capability than is possible in the government; and
- international experience.

Sverdrup was selected based on a competitive evaluation of its proposal relative to those of the other bidders. Sverdrup met all RFP requirements and was judged to be the most qualified among all offerors in each of the technical areas identified in the RFP and evaluated by the Source Selection Board.

The annual contract costs are projected as follows:

Contract Year	Cost ($ Million)
1	$11.788
2	$10.746
3	$11.251
4	$11.595
5	$11.787
Total	$57.167

Question:

Has the mobilization of the Private Sector Program Manager (PMC) been completed? How many projects have been assigned to the program manager? Which posts are they? How many projects do you expect to assign to this PMC? How does this compare to the number originally planned for the PMC?

Answer:

Sverdrup completed the mobilization process on January 26, 1987.

As of April 1987, twenty-two (22) projects are scheduled to be tasked to the Program Management Contractor. They are:

San Salvador	Khartoum	Budapest
Amman	Bangkok	Ottawa
Sanaa	Kampala	Algiers
Pretoria	La Paz	Rabat
Caracas	Lima	Brussels
Nicosia	Bogota	Cairo
Santiago	Abidjan	Geneva
Tunis		

We do not anticipate assigning more than 22 projects at a time to the Program Management Contractor. The actual number of projects will be determined by the sites, the phase in which the Program Management Contractor assumes responsibility, the availability of funds, and the remaining duration of the contract. The specific projects assigned to the contractor may change, depending on changes in priorities or funding.

The 22-project level generally corresponds to our original planning. (The RFP was based on 13 projects, but only as a basis for determining the minimum staffing skills to be provided by the Program Management Contractor.)

Question:

Has the PMC provided written formal procedures to assist FBO in improving its operations and activities? Are these procedures in place?

Answer:

The Program Management Contractor has developed -- in cooperation with A/FBO staff -- written formal procedures to guide its activities and to assist A/FBO to improve its operations. These procedures, prepared during the mobilization period, are now being used by the Contractor on assigned projects.

The procedures will be updated and revised, as required.

Titles of the manuals are listed below:

- Management Overview
- Program Management/Administration Management
- Design Management
- Construction Management
- Operations and Maintenance Management
- Security Management "Limited Official Use"
- Communications Management
- Other Technical Requirements Management
- Contracts/Procurement Management
- Quality Management

Question:

Do these procedures apply to in-house FBO-managed projects as well as those managed by the PMC?

Answer:

Yes, in all cases in which the procedures are not specifically directed to A/FBO's monitoring and control of the Contractor. The procedures for cost and schedule control of projects will be identical.

Question:

What internal controls have been established to monitor the performance of the PMC?

Answer:

Control of the Program Management Contractor's performance starts with the issuance of instructions to the Contractor. These are transmitted in the form of a Task Assignment, in accordance with the Contract. A specific Task Assignment is issued for each project.

The Program Management Contractor develops a formal Contract Task Plan in response to each assignment. The formal plan for the execution of the task is based on a Program Management Procedure Manual, which was developed by Sverdrup and approved by A/FBO. The Contract Task Plan establishes project deliverables, milestones, schedules and resource requirements, thus providing the basis for A/FBO to evaluate the Program Management Contractor's performance in the areas of cost, schedule and quality of service.

Question:

Are Federal Acquisition Regulations being utilized by FBO in the overseas security construction program?

Answer

Yes. Although A/FBO is permitted to deviate from the FAR, no deviation has yet been necessary in any of the contracts awarded in support of the diplomatic security construction program. Any such deviation will be subject to prior review and approval by the Deputy Assistant Secretary for Foreign Buildings before it is implemented, and the contract file will be documented to reflect that fact and the justification for the deviation.

Question:

Are there any plans to utilize the services of the Army Corps of Engineers as a program Manager?

Answer:

The Corps of Engineers has recently responded favorably to our invitation to provide personnel to serve on short-term detail to assist us while we are recruiting for permanent positions. They have also offered to assist in recruitment of Corps personnel for permanent positions in A/FBO. We appreciate those offers and plan to discuss implementing details with the Corps in the very near future.

We are also seriously considering the use of the Corps of Engineers in direct mission-type assignments such as the design and construction for selected projects. In view of the few new projects anticipated in FY-88, we will examine the proposed FY-89 and FY-90 programs to determine where it would be most suitable to utilize the Corps, with particular emphasis on locations where the Corps of Engineers currently maintains a presence.

Question:

The 1988 budget includes $9.8 million for the Anti-Terrorism Assistance Program to provide training and equipment to foreign countries and civil law enforcement agencies to combat terrorist threats. The program has been in effect since 1983. What tangible benefits have resulted from this program to date?

Answer:

Numerous tangible benefits accruing from participation in the program have been reported by Foreign Service Posts and participating governments. Two major international airports adjudged to have lax security were brought up to acceptable international standards as a direct result of training programs and related equipment offered by the ATA Program. Because of this program's emphasis on Civil Aviation Security, numerous posts have reported generally improved airport security. One country also credited ATA Training for the peaceful resolution of a hostage situation in contrast to violent results in previous incidents. Advances in the detection of explosives and improved dignitary protection have all been documented.

The overall results have been the creation of a more secure environment for our citizens when travelling and for our personnel and facilities overseas. A major element of the improved security environment overseas has been the access afforded us through the ATA Program to high-level officials of governments who are responsible for combatting terrorism. The entire effort has resulted in improved international cooperation in the fight against terrorism.

Question:

What countries have received assistance?

Answer:

A list of countries which have received assistance or participated in the programs of the Anti-Terrorism Assistance Program is as follows:

Antigua and Barbuda
Bahrain
Bolivia
Brunei
Cameroon
Colombia
Costa Rica
Cyprus
Denmark
Dominica
Ecuador
Egypt
El Salvador
Greece
Grenada
Guatemala
Honduras
Israel
Italy
Jamacia
Jordan
Kuwait
Liberia
Malaysia
Netherlands
Norway
Oman
Pakistan
Peru
Philippines
Portugal
Qatar
St. Kitts and Nevis
St. Lucia
St. Vincent
Saudi Arabia
Senegal
Somalia
Sri Lanka
Thailand
Tunisia
Turkey
United Arab Emirates
United Kingdom

Wage, Price and Exchange Rate

Question:

The Department is requesting a supplemental for 1987 of $119.6 million. The largest single item is $47.3 million to fund adverse exchange rate fluctation and wage/price

increases. How are overseas operations being effected by the declining dollar?

Answer:

The Department has already taken steps in FY 1987 necessary to cover the funding shortfalls. These steps include: substantial reductions in on-going programs in favor of the continuation of critical post operations (e.g., FAIS, Motor Vehicle Replacement, TERPs, CIHS, EPABX Replacement). In addition, posts and domestic operations have curtailed contractual administrative services (e.g., maintenance of equipment and buildings; custodial services; and vehicle maintenance); not filled vacant Foreign Service National positions and froze wage increases; and limited temporary employment and overtime.

Overseas Inflation and Exchange Rate Losses

Question:

Could the Department make a greater use of domestic goods and services to offset the effect of the declining dollar?

Answer:

The portion of appropriated funds spent in local currency varies greatly from country to country. The Department performs a cost benefit analysis, taking into account restrictions, in deciding the amount to be spent in local currency vs. domestic goods to ensure maximum utility of available funds. These factors/restrictions include:

Local Currency Expenditures

The Deparment must pay most overseas FSN wages in local currencies which can account for over half a post's mandatory requirements in some cases.

Many products must be purchased overseas because they cannot be used in that country without expensive alterations (e.g., electrical products that do not conform to foreign country voltage).

Domestic Goods Purchased

The cost of transporting domestic goods overseas invariably reduces dollar savings realized from buying domestic goods.

For specific goods the Department must buy American products regardless of the cost-benefit of buying local products (e.g., motor vehicles).

Question:

The Department recently has notified the Congress that it plans additional post closings because of budgetary constraints. Seven posts were closed last year. What is the expected impact of the proposed closings? What, if any, was the negative impact of last year's closings?

Answer:

No significant operational difficulties resulted from the closure of seven small consulates last year, and none are expected to arise from the closure of seven additional

posts in fiscal year 1987. There is some inconvenience to American citizens needing emergency services in localities where consular agencies have not been established to provide "on the spot" assistance; however, we anticipate significant savings on overhead costs. In this regard, among the posts closed thus far, consular agencies were established in Seville, Nice, Salvador da Bahia, Trieste and Winnipeg; among the posts scheduled for closure in 1987, a consular agency will be established only in Maracaibo.

Apart from the effect on consular operations, the principal impact of the post closures is the termination of a symbolic, official U.S. presence for representation purposes in the localities concerned. While the necessity to end official U.S. representation is regretted, and there may be some negative perceptions in the countries affected, overall U.S. interests and good relations with the host governments have not been damaged by the post closures.

Question: The Department has indicated that budget costs could result in a reduction of up to 1,000 employees. Where would these possible cuts be made.

Answer: It is accurate to say that if the Department were required to take a ten percent reduction in our S&E account, and if we decided to achieve the total savings through employment reductions, the result would be cuts of up to 1,000 employees. A reduction in our workforce of this magnitude would be achieved through attrition and substantial reduction in force actions and would take two years to complete. Services to the public and other agencies would have to be reduced substantially. It is not possible to predict exactly where attrition would occur nor the effect of the reduction in force.

SUPPLEMENTALS

QUESTION:

Mr. Secretary, yesterday I received a letter from the Acting Director of the Central Intelligence Agency endorsing the Department of State's Supplemental Appropriation and encouraging the Subcommittee's support of the request. While I certainly appreciate the Acting Director's interest, I find it unusual that he would issue a public letter of support. Couldn't he have just picked up his telephone and told me of his interests?

ANSWER:

I appreciate the fact that Mr. Donnelly did take the time and effort to write a public letter of support endorsing the Department of State's supplemental appropriation. The Department is facing a critical period. Deep cuts in our budget are severely damaging State's foreign policy infrastructure, they will force us to renege on Treaty obligations to international organizations and leave us no choice but to defer without the future security programs to protect our people and facilities abroad from international terrorism.

Questions Submitted by Senator Rudman

INSPECTOR GENERAL

Question:

What is the budget lapse rate for the 55 positions requested in the FY 1987 supplemental for the Office of Inspector General?

Answer:

The staffing plan developed by the OIG assumes gradual, deliberate growth to full strength by early 1989, as follows:

1987: 93 positions.
1988: 180 positions.
1989: 222 positions.

Of the 93 positions planned for 1987, 38 are provided from internal resources and 55 are requested in the 1987 supplemental.

In recognition of this gradual increase, the budget estimate for 1987 assumes a lapse rate of fifty percent. The estimate appears to be accurate. Over 900 applications were received by the OIG in response to its first posted vacancy announcements, and 41 individuals are either on board or have been offered employment through March 31, 1987. Hiring is expected to pick up dramatically in upcoming weeks, reflecting the fact that the panel certification board has finished its ranking of all applicants and interviews are now taking place.

SAN SALVADOR CHANCERY

Question:

The total project cost for a new chancery complex in San Salvador is $82,806,000; the total project cost for USAID new construction in San Salvador is $73,103,000. Has the Department studied the possibility of consolidating these projects? Please provide an estimate of the cost savings available if the projects are consolidated on a single site. Please provide an estimate of all security costs associated with one site versus two sites.

Answer:

The estimated total El Salvador project cost of $82,806,000 is for a consolidated chancery complex; of this total $9,703,000 is for USAID facilities. A separate site for USAID was never planned. We estimate conservatively that the additional capital cost to locate USAID at a separate site would be $2,000,000, half of which would be for security.

The $73,103,000 figure mentioned in the question is the estimated cost of the chancery complex without the USAID facilities. USAID has received diplomatic security construction funding of $9,366,000 for the construction of new office facilities in San Salvador, the cost of which is included in the $82,806,000 total project cost for the new chancery complex.

Question:

Please detail the "Other Services" components of the supplemental request for a new chancery complex in San Salvador.

Answer:

The "Other Services" in the Object Class table covers a variety of contractual services. These include the procurement and transportation of materials for necessary interim repairs to the chancery tower and other areas of the compound, consultant fees (e.g., the seismologist), and other costs -- such as the leasing of temporary office space -- related to the mission's recovery from the earthquake.

OFFICE OF POLICY AND PROGRAM REVIEW

Question:

What's the requested budget and position level of the Office of Policy and Program Review? What are the levels in FY 1987?

Answer:

During FY 1987, in compliance with section 413 of the Omnibus Diplomatic Security and Antiterrorism Act of 1986, the Department established the Office of Policy and Program Review (S/PPR) and transferred to it a share of the resources that had resided in the former Office of the Program Inspector General. During this period, the Department was also mandated by Congress to create a new Office of the Inspector General (OIG) under the 1978 IG Act and to terminate the operations of the Office of the Program Inspector General. Resources transferred by the Department to S/PPR included 60 positions and $4,236,000 for its operations in FY 1987. For FY 1988, S/PPR has requested funding at a level of $4,362,000 for 60 positions. No program increases are sought. After a recent review of S/PPR's mission, the Secretary of State approved a proposal by the Director of S/PPR to reorganize his staff and reduce its staffing complement by 24 positions - - from 60 down to 36 full-time positions. This reduction in staffing will take place during FY 88 and is expected to result in a reduction of approximately $1,320,000 in funding allocated for American salaries, plus additional savings in cost of support and travel.

Question:

In the Inspections and Audits section of the budget justification the Department states that the Office of Policy and Program Review "will ascertain the consonance of the Department's domestic and overseas operations with the responsibilities and directives of the Secretary." What does this mean in English?

Answer:

The Office of Policy and Program Review (S/PPR) was established by section 413 of the Omnibus Diplomatic Security and Antiterrorism Act of 1986. The legislation provides that

S/PPR "shall review activities and operations performed under the direction, coordination, and supervision of chiefs of mission . . . for the purpose of ascertaining their consonance with the foreign policy of the United States and their consistency with the responsibilities of the Secretary of State and the chief of mission."

What this means, simply put, is that S/PPR provides the Secretary of State with a mechanism reporting directly to him for reviewing, evaluating, and improving the management of Foreign Service missions abroad and addressing those policy and resource issues of systemic importance to the Department of State and Foreign Service.

As an internal evaluation organization within the Department of State mandated by Congress to review and improve the performance of Foreign Service missions under the direction of chiefs of mission, S/PPR collaborates closely with the new Office of Inspector General (OIG) and seeks a high degree of complementarity in the operations and programs of the two organizations. As a result of its management reviews and evaluations, S/PPR recommends to OIG potential areas for audit, and refers immediately to OIG for investigation any instances or allegations of fraud, waste, or abuse.

Question:

What will be the specific duties and responsibilities of the Office of Policy and Program Review? Provide examples of specific activities anticipated in FY 1988.

Answer:

Serving as a management arm of the Secretary of State, the Office of Policy and Program Review (S/PPR) promotes effective formulation and implementation of U.S. foreign policy, encourages effective use of USG resources to carry out Department programs, reviews the coordination and direction of the programs of all U.S. agencies under the general supervision of the chief of mission, ensures that U.S. interests are effectively and accurately represented abroad, promotes the Department's management-by-objectives program at each post overseas, and furnishes extensive management counselling to the leadership of a Foreign Service post.

S/PPR's evaluations--known as policy and program reviews--are conducted each year at about a third of all missions abroad by Foreign Service management inspectors. The results of S/PPR's management reviews and evaluations are reported to senior Department officials; recommendations made by Foreign Service management inspectors to correct identified deficiencies and improve performance are reviewed by S/PPR's leadership, automated and tracked to ensure organizational compliance.

At the request of the Secretary of State or the discretion of its Director, S/PPR also performs a number of special projects each year which review and evaluate issues or activities of systemic importance to the Department of State and Foreign Service. Examples of such special management reviews and evaluations include examinations of: 1) housing, official residence and representation expenditures overseas; 2) the administration of the Foreign Service grievance system; 3) progress achieved by the Department in its management-by-objectives program at posts overseas; 4) the

Department's orientation of newly appointed Chiefs of Mission; 5) the role of the country desk officer; and 6) the Department's transactions in foreign currencies.

In FY 1988, S/PPR plans to conduct policy and program reviews at approximately 70 missions abroad. About a dozen or so special projects undertaken by S/PPR during this period will be determined based on requests by the Secretary or priority areas determined by the Director, S/PPR in consultation with senior Department management.

BLAIR HOUSE

Question

The budget justification for Protocol Activities indicates that the program "continues to monitor the final stages of the Blair House GSA renovation project". In what way?

Answer

The monitoring of the GSA renovation of Blair House will, hopefully, not continue in FY88, inasmuch as the contractor should complete the construction phase late in the third quarter of FY87. Subsequent to that, the program will continue to monitor the decoration of the house, as well as other preopening activities. At reopening (estimated for late first quarter FY88) the focus will shift from monitoring to managering the expanded facility. This will of course be ongoing.

Diplomatic Reporting Operations

Question:

The position level for Diplomatic Reporting Operations is projected to be 3,369 in 1987 -- an increase of 39 positions from 1986. Given the stringent budget in 1987, how was the Department able to assume the increase? Please provide a description of each position was well as the budget associated with this increase.

Answer:

In fact there was no increase from 1986 to 1987 in positions for Diplomatic Reporting Operations. The apparent increase is due to reporting error.

Eight of the 39 positions are due to the erroneous inclusion of positions that had been considered for a 1987 supplemental request for the Office of East West Trade in the Bureau of Economic and Business Affairs. The Summary Statement of our budget submission reports 3,369 positions for 1987 compared to 3,361. The Summary of Activities Statement reports 3,361 positions for 1987 and correctly omits these eight positions.

Twenty-five of the 39 positions should have been listed under Protocol Activities.

We have been unable to identify the remaining six positions. It is important to note, however, that the Department's position level

in unchanged between 1986 and 1987 at 20,091 positions. The remaining six positions were misallocated by the bureaus in their budget submissions and are in functional categories other than Diplomatic Reporting Operations.

Question:

Please provide a priority listing of the increase of 41 positions requested for Diplomatic Reporting Operations.

Answer:

A priority listing of the 41 positions requested for Diplomatic Reporting Operations follows:

	Bureau	Position
1.	EAP	Apia - FO-1 Principal Officer (Post Opening)
2.	EAP	Apia - FO-4 Pol/Eoon Officer (Post Opening)
3.	EAP	Apia - FSN Secretary (Post Opening)
4.	EAP	Apia - Admin Specialist (Post Opening)
5.	PM/STA	Presidential Management Intern
6.	EB/EWT	Deputy COCOM Negotiator
7.	EB/EWT	Negotiator
8.	EB/EWT	Negotiator
9.	EB/EWT	Research/Negotiator
10.	EB/EWT	Secretary
11.	EAP	Tokyo - FO-3 Strategic Trade Officer
12.	EAP	Canberra - FO-3 Pol/Mil Officer
13.	INR/GE	Computer Cartographer
14.	INR/PMA	Scientific and Technological Analyst
15.	PM/STA	Technology Transfer Officer - FO-3
16.	AF	Pretoria - FO-3 Political Officer
17.	INR/AA	Southern Africa Analyst
18.	AF/S	Southern Africa Desk Officer
19.	CIP	Regulatory and Treaty Affairs Officer
20.	CIP	Technical Standards and Development Officer
21.	INR/NESA	Egypt Analyst
22.	EUR	Ottawa - FO-1 Legal Affairs Officer
23.	ARA	Sao Paulo - FS-7 Economic Secretary
24.	OES/ENH	International Health Officer, FO-3
25.	ARA	Brasilia - FSN Economic Secretary
26.	ARA	Brasilia - Science Officer, FO-3
27.	AF	Monrovia - Economic Officer, FO-4
28.	EUR	Copenhagen - Economic Officer, FO-4
29.	NEA	Dhaka - FSN Political Specialist
30.	NEA	Muscat - FSN Economic Secretary
31.	ARA	Port-of-Spain - Political Officer, FO-4
32.	AF	Pretoria - Political Officer, FO-4
33.	AF	Johannesburg - Economic Officer, FO-4
34.	ARA	Nassau - Political Secretary, FS-7
35.	ARA	Guatemala - Political Secretary, FS-7
36.	EUR	Calgary - FSN Economic Specialist
37.	AF/E	Sudan Desk Officer
38.	EUR	Bucharest - Political Officer, FO-4
39.	EUR	Izmir - Economic Officer, FO-4
40.	EUR	Belgrade - FSN Science and Technology Specialist
41.	EAP	Manila - Political Secretary, FS-7

PROFESSIONAL DEVELOPMENT AND TRAINING

Question:

In the budget justification dealing with Professional

Development and Training, it is stated that "during 1987, funds will be used to design a building (or buildings) with construction planned for 1989" for the Foreign Service Institute. Has the Department submitted a reprogramming for this purpose? If not, why not? What level of funding is proposed for this purpose in 1987, and what will be the source of these funds?

Answer:

The Department has budgeted, on a contingency basis, $2,000,000 from the 1987 base S&E funds to partially fund the architectural and engineering design study for the construction of the National Training Center for Foreign Affairs. A reprogramming letter has not been submitted. We plan to hold off making our final decision on this project until the total funding picture for 1987 becomes clearer.

Communications

Question:

Please provide an object class breakdown of the funds provided for Communications in 1987 ($208,249,000) and the funds requested in 1988 (225,383,000). Specifically identify the nonrecurring costs in the 1987 budget and 1988 request.

Answer:

The object class breakdown of the funds provided for Communications in 1987 and the funds requested in 1988 is as follows:

FY 1987 Budget
($000)

Object Class		
1100	Personnel Compensation	$ 57,611
1200	Personnel Benefits	4,121
2100	Travel and Transportation of Persons	5,087
2200	Transportation of Things	11,965
2300	Rents, Communications and Utilities	29,109
2400	Printing and Reproduction	131
2500	Other Services	69,780
2600	Supplies and Materials	3,997
3100	Personal Property	26,448
	Total, 1987 Communications Program	208,249

The total non-recurring costs in the FY 1987 budget is $5,786,000 broken down as follows:

-- Can-Do Replacement Program, $3,260,000. These funds were received in FY 1984 to provide for acquisition of mobile, multiple channel, satellite based communications systems to begin replacement of the 10 obsolete Can-Do packages that were in use, at that time, on trips supporting the Secretary and other VIP's.

-- Network Management Control System, $1,000,000. This non-recurral represents the amount of FY 1984 funding that will not be needed to maintain the system that provides the requisite loopback testing capabilities to support the increasing number of data circuits being employed by the Department's communications system.

-- Communications Programs, $1,086,000. This non-recurral is for one-time costs associated with the renovation and/or construction of post communications centers in short-term leased buildings in Chengdu and Wuhan, in the People's Republic of China.

FY 1988 Request
($000)

Object Class		
1100	Personnel Compensation	$ 59,299
1200	Personnel Benefits	4,141
2100	Travel and Transportation of Persons	5,933
2200	Transportation of Things	13,358
2300	Rents, Communications and Utilities	30,675
2400	Printing and Reproduction	134
2500	Other Services	78,857
2600	Supplies and Materials	4,869
3100	Personal Property	28,117
	Total, 1988 Communications Program	225,383

The non-recurring costs in the FY 1988 request ($1,276,000) is for the Model-28 Replacement Program. The Department first received funds in FY 1983 to begin a 5 year effort to replace out dated Model-28 teletypewriter equipment which has been out of production since 1974. This non-recurral reflects the completion of that program.

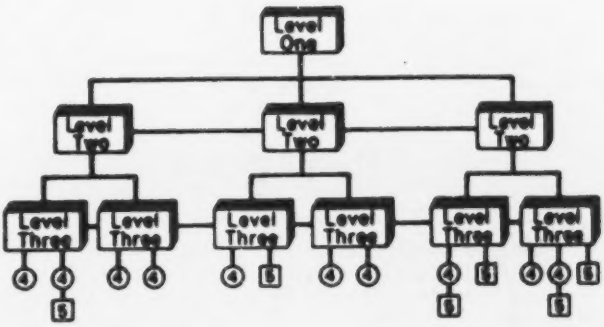
Question:

Please provide for Committee files the report or reports detailing the design and cost estimates of DOSTN. Please provide a copy of the analysis to justify the Department's claim of $247 million in cost avoidance due to DOSTN.

Answer:

There are no costs associated with network design for DOSTN. The backbone network design is straightforward and allows for an evoluntionary transition from the Department's present dedicated high-speed circuit network to a distributed network with hierarachical levels. The design was arrived at taking into account proven mature technology, characteristics of other packet-switching networks including the Defense Digital Network (DDN), Customs and the private sector, and the geographical disbursement of U.S. Foreign Service Posts. The DOSTN configuration takes into consideration diversity of transmission trunks to ensure high circuit availability on a shared basis by the users and the need to minimize large overseas nodes for cost and security reasons.

The above mentioned features, as well as the benefits that can be derived from DOSTN, drove the Department to selecting the Architecture presented below:



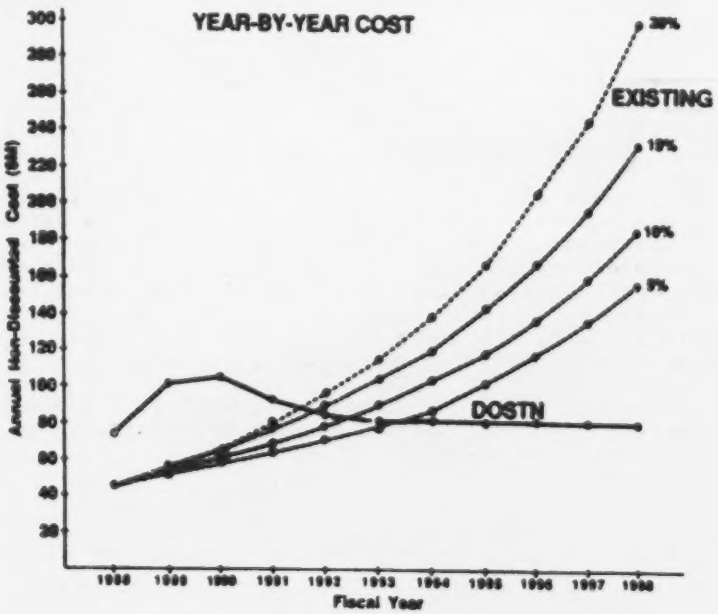
An analysis of the DOSTN versus continuation of existing networking schemes shows DOSTN:

- is less expensive;
- buys more capability for less money; and
- has many secondary benefits.

The current system uses dedicated circuits for each user. New requirements are often met by purchasing parallel leased lines, which is an inefficient procurement in the out years since line costs exhibit significant economies of scale. The relative inefficiency of dedicated circuitry with centralized switching drives costs higher in later years using the current system.

The DOSTN uses the concept of shared circuits and hierarchical switching to provide superior service while, in the long run, reducing costs.

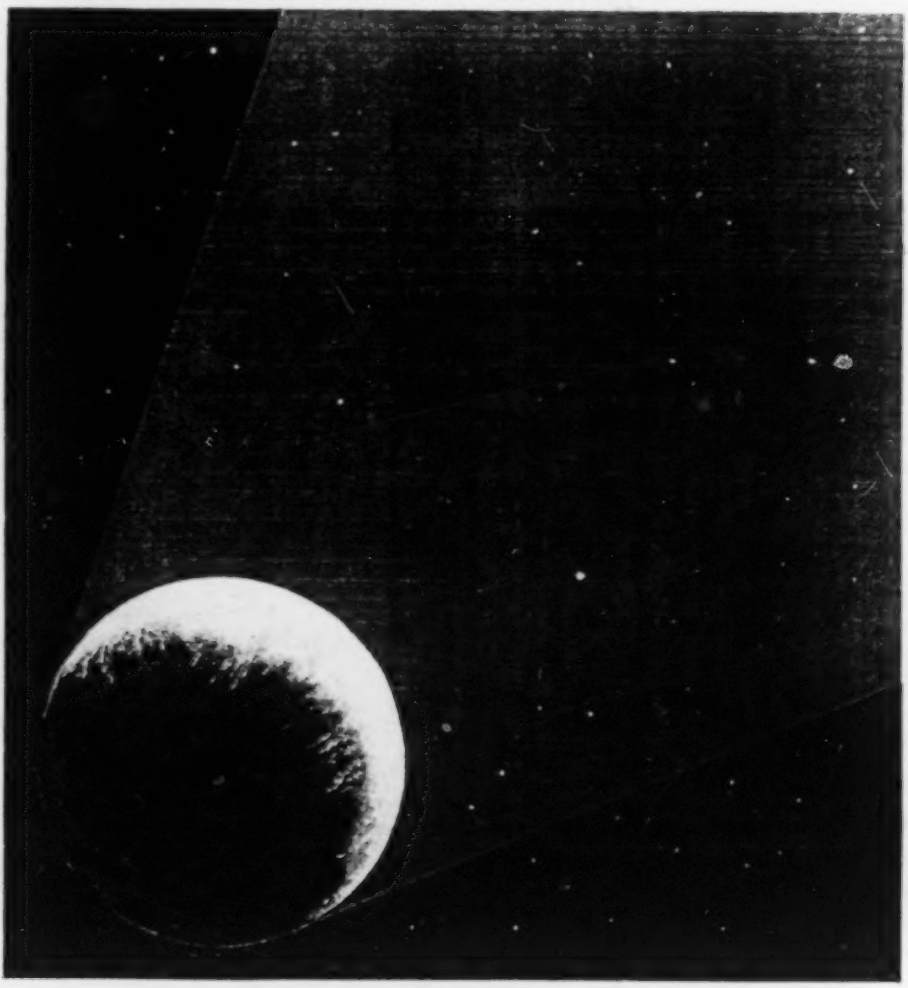
The year-by-year transmission costs of the existing system (at growth rates of 5%, 10%, and 20%) as compared to DOSTN is presented below:



The overall cost figures for DOSTN reflect equipment, transmission, and personnel to support the network. The DOSTN Program is projected to cost $118.0 Million after taking into account $247 Million in cost savings. Certain hardware and circuitry used in the existing system will be reused in the DOSTN. Multiplex and cryptographic equipment will be reprogrammed from the High-Speed Program at substantial savings. The savings from high-speed and other circuts will finance a major portion of the DOSTN. Significant savings will also be realized by offering voice capabilities in DOSTN so that customers will not have to place international toll calls. The number of Foreign Service National positions will be reduced and/or eliminated as users will be able to interface directly to the network. After the complete implementation, the existing switching systems will have reduced network responsibilities and cost savings will be possible in facilities, equipment, and software/hardware contract maintenance.

See Attachments for additional information:

U.S. DEPARTMENT OF STATE
OFFICE OF COMMUNICATIONS



Executive Summary

OVERVIEW

Telecommunications Network Architecture

The Department of State (DOS), Office of Communications (OC), has initiated a major effort to develop a worldwide leased network architecture to accommodate emerging requirements for secure television conferencing, voice, and data. The network concept for a distributed network with hierarchical levels to serve large, medium, and small Foreign Service posts will employ T1 bandwidth capabilities and other high-capacity circuits. The backbone international and domestic networks will be secure, with sufficient redundancy to assure high availability of bandwidth to the Department and to the foreign affairs community.

FOREIGN AFFAIRS CRISIS MANAGEMENT
by DASC Robert C. Ribera
Reprinted from *Signal* magazine

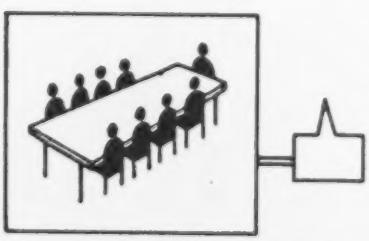
The United States Government depends on its diplomatic missions and consular offices in almost every country around the world to serve as the foreign focal points for the formulation and execution of foreign policy. The command and control of such a farflung operation depends almost entirely on the communication systems which link the approximately 250 locations involved.

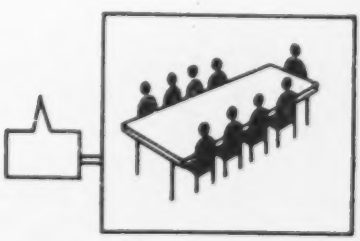
In instances of political unrest, civil strife or natural disaster, the management of the crisis most often requires direct contact between Washington and those on the scene, and the fate of life and property as well as the instances

of fast breaking foreign policy implications are dependent on rapid, reliable and secure communications systems.

Our immediate goals are increased band widths; more effective switching systems; multilevel service; enhanced interoperability, reliability and survivability; and always high degrees of communications security and professional networks management.

The challenge is exciting. With the technological advances providing the stimulus, telecommunications facilities will be capable of handling information in virtually every type of electronic form.





Preface

In July 1985, the Deputy Assistant Secretary for Communications (DASC) established a Working Group for the purpose of developing a network architecture to support the ongoing and future telecommunications requirements of the Department and the foreign affairs community.

The Working Group's report contains detailed information regarding the capabilities and characteristics of the international secure network projected for the future. This Executive Summary highlights the effort.

Information regarding the network architecture and other elements proposed may be obtained from the Office of Communications, (703) 644-3206.

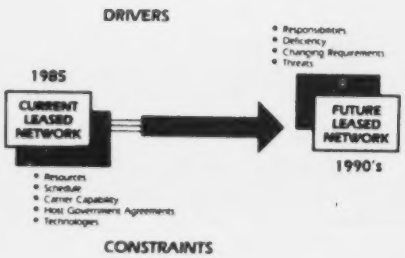
Respectfully Submitted for Consideration
by the
Telecommunications Network Architecture
Working Group

Executive Summary

Introduction

Early on, the Working Group initiated efforts to review the Office of Communication's responsibilities vis-a-vis its expanding carrier role, changing user requirements, network strategies for the architecture, inter-agency agreements for services, and the capabilities and plans of the U.S. International Record Carriers (IRCs).

Developing the basic architecture was made easier since considerable thought had already been given to the subject by Office of Communications activities. This, coupled with the goals and objectives of the network planning established by the Working Group and approved by the Office of Communications Directors, presented a clear direction for the overall effort. The goals and objectives were as follows:



- Ensure that the basic global transmission architecture meets the needs of the U.S. Government at Foreign Service posts and satisfies, to the degree possible, the requirements of the "National Level Agenda" for survivability, continuity, and security.

- Transform present networks into an integrated telecommunications network with voice options and with the capacity and versatility to accommodate the needs of the Department, the foreign affairs community, and other U.S. Government activities, through the mid-1990's.

- Ensure that special communications capabilities are available during crisis and abnormal situations.

- Ensure that each Foreign Service post has a minimum of two completely independent transmission paths to the outside world.

- Ensure that the Backbone Transmission System can accommodate the wide range of user services and that a viable restoration system is in place to effectively use circuitry in the event of reduced capabilities.

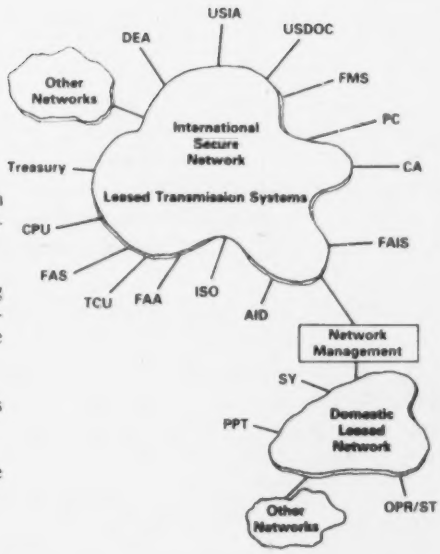
- Ensure that negotiations are initiated with appropriate carriers and/or host governments for full-time, non-preemptable services.

- Ensure that the leased network properly interfaces other member networks and interoperability is possible and agreements reached.

- Ensure that a requirements validation process is established and exercised, and that customer usage is monitored for compliance with agreements.

- Ensure that the network maintains user confidentiality and that all trunks are secure.

- Ensure that there is a responsive distributed network management and control structure, and that a continual examination is conducted of single-thread vulnerabilities and critical paths.



- Ensure the network access points interface with various types of modems and specified protocols, formats, and codes used by the customers.
- Ensure network efficiency by eliminating unnecessary duplicative circuitry and enhanced bandwidth utilization, but ensure extra capacity is available for special situations.
- Ensure that a realistic alternate routing policy is established and a plan is ready for execution.
- Ensure that a viable user requirements data base is maintained.

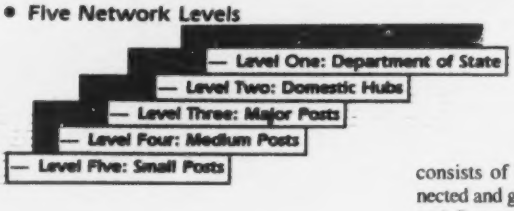
Design

The following illustrates the areas where particular emphasis was placed by the Working Group in developing the network design:

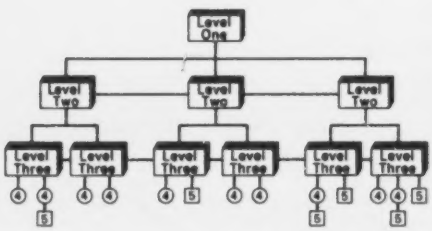
TECHNICAL	NON-TECHNICAL
High Network Availability	Expression of Need From Senior Management
Controllable Network Access	Included in Department Plans
Responsive Network Control	Competent Network Operation
Interoperability Among Member Networks	Supportive Environment
Flexible Degree of Dedication	Reasonable Cost and Schedule
Wide Range of User Services	Feasible Long Term Budget Support
Capable of Maintaining User Confidentiality	Restoration Priority
Network Security	Alternative Routing Plan
Efficient Use of Bandwidth	Examination Single-Thread Vulnerabilities
Terminal Flexibility	User Requirements Data Base

Architectural Concept

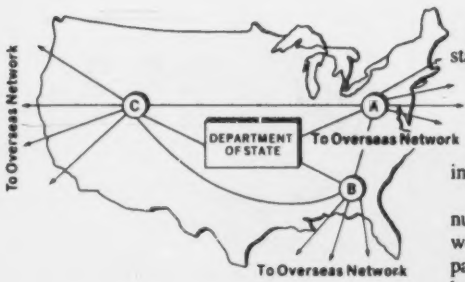
- Distributed Network
- Hierarchical Levels
- Five Network Levels


Level One: Department of State
Level Two: Domestic Hubs
Level Three: Major Posts
Level Four: Medium Posts
Level Five: Small Posts

The backbone network design concept is relatively straighforward and allows for an evolutionary transition from the Department's ongoing dedicated high-speed circuit program to a distributed network with five hierarchical levels. The distributed portion consists of levels one through three being interconnected and generally self-sufficient, whereas levels four and five would be connected in a star configuration to level three.



The concept allows for the Department (Level one) to be serviced by three domestic hubs (Level two). This configuration was deemed important to ensure diversity of trunks for high-circuit availability and to minimize the need for sophisticated overseas nodes.



Level 1 to Level 2 Network Configuration

The domestic hubs would be engineered as sister stations to allow for each of the three to service and manage a region, as well as backup the others in the event of a catastrophic failure or scheduled shutdown. Each hub would be functionally identical, thus avoiding additional training for personnel transferred from station-to-station.

The first tier of posts overseas (Level-three) would number between 20-25 locations. Level-three posts would have leased wideband redundant circuits to their parent Level-two hub, as well as another Level-two hub. All Level-three posts would be fully connected, and at least one post in each region would be connected to a Level-three post in another region. This redundancy would accommodate overloading and alternate routing of substantive traffic and circuitry in the event of trunk disruption or crisis volumes. Level-three posts would also have extra capacity to terminate special circuits in support of VIP trips, conferences, and special activities.

Level 1 to 3 Network Configuration

Level-four and -five posts would be connected to their Level-three post in a STAR configuration where each Level-four and -five post would have one circuit into a higher Level-three post. Alternate routing would be achieved by an established restoration priority system utilizing government-owned facilities and/or commercially available dial-up systems.

The proposed architecture creates a global backbone transmission network which provides the communications (bandwidth) connections to a variety of user-oriented systems. The network provides for trunk security. If additional security is needed, the customer may arrange for it to satisfy a particular need. The network will in effect be transparent to the user and allow for the choice of terminal systems by the customer. The planned backbone transmission links consist of a variety of high-capacity digital circuits (1.54 megabit or higher) at the above Level-three posts, and medium (9.6 to 56 Kbps) to low speed (2.4 Kbps) to the Level-four and -five posts. Transoceanic links would be via commercial satellite or submarine cable.

Survivability

While the goal is to have the backbone trunks grow into a totally survivable network throughout the world, achievement is recognized as highly unlikely.

The architecture provides for a highly distributed network to key Foreign Service posts, with sufficient features to ensure a high degree of survivability. The principal features include network redundancy, dispersion of links, adaptive routing, semi-automatic preemption, and sophisticated around-the-clock network control and management.

An important element of the network architecture is the planned network control and management. A professional network control activity will be essential to ensure that circuit up-time is maintained at a high level and that alternate routing plans can be executed as warranted in a timely manner. Effective network management will result in high performance and cost avoidance. The three domestic hubs will pay a key role in controlling and managing their portion of the network and permit flexible global connectivity.

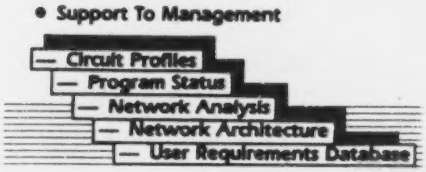
PRIORITIES

- **Crisis**
- **Substantive Core Systems**
- **Substantive Core Circuitry**
- **General Purpose Systems**
- **Special Purpose Circuitry**
- **Non-Substantive Systems**
- **Non-Substantive Circuitry**
- **Other**

The Working Group will be developing a comprehensive restoration priority system based upon the priorities illustrated above.

Modeling

The modeling initiated for planning the network will be helpful to the Level-two network control stations when they become operational.



Service Offerings

Services planned to all five levels of the system are depicted below:

	SECURE VIDEO CONFERENCING	VOICE (SECURE)	DATA/ RECORD	FAX	ELECTRONIC MAIL	FILE TRANSFER	TERMINAL/ TERMINAL
LEVEL 1	X	X	X	X	X	X	X
LEVEL 2	X	X	X	X	X	X	X
LEVEL 3	X	X	X	X	X	X	X
LEVEL 4			X	X	X	X	X
LEVEL 5			X	X	X	X	X

By properly managing the bandwidth and by minimizing the dedication of circuits to individual subscribers, the network will satisfy the needs of all customers on a cost-effective basis.

User Requirements

As expected, the definition of user requirements was difficult. The Working Group met regularly with Department of State and non-Department of State customers to review the services desired and the locations where the activities have representation. The Working Group also met with representatives of the Bureau of Administration, Information Systems Office (A/ISO), and the Information Technology Planning (A/ITP) staff. The meetings were held to determine their bandwidth needs, and identify activities for those whom they are brokering. This area is treated in depth in the body of the report.

PARTIAL LISTING OF DOS USERS

M/COMPFMS)	FAIS	ISO	SY	Regional Bureaus
MED	CPU	TCU	FBO	Special
CA	S/S-VIP	INR	M/CTP	Security Coordinator

Non-DOS
User Requirements by Agreements

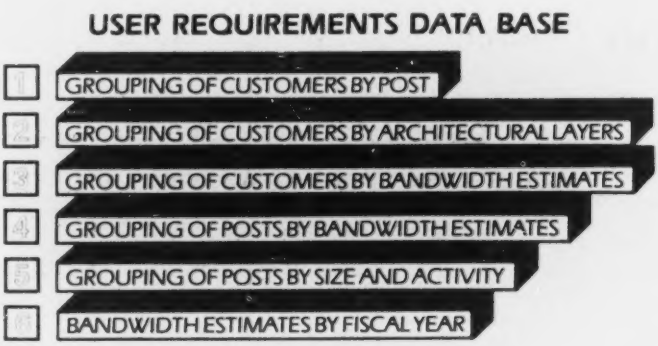
POSTS	AID	DEA	FAA	FAS	FBI	USDOC	USIA	OTHER
Approximately 75 Overseas Locations	24 (13)	12 (8)	13 and 24 (16)	24 (31)	0.075 to 24 (16)	24 (45)	12 where there is 96 more	03 to 24 (17)

Data Base

As requirements are defined, entries into a user requirements data base will be made.

Subsequently a process for validating requirements will be established, as well as the assignment of restoration priorities.

All U.S. Government activities requiring communications services through leased facilities to and from Foreign Service posts will be provided communications services by the DOS network.



Transmission

Availability of high-quality leased circuitry to all geographical areas is a limiting factor in implementing the proposed architecture, and the Working Group is examining several possibilities including commercially available Time Division Multiple Access Systems (TDMA). The Working Group has been meeting with the major International Record Carriers (ITT, COMSAT, AT&T, MCI, TRT, RCA, and others) in an attempt to assess their capabilities and to influence their future planning. The IRCs have been extremely cooperative and appreciative of being advised of the Department's intentions. Since divestiture, the ordering of circuits has created a significant workload on all parties involved.

The Working Group is taking advantage of the discussions with the IRCs to review various ways to shorten the cycle of ordering circuits. The most popular suggestion is to award a multi-year (e.g., five-year) contract to the IRCs by either geographical areas or by country. Once the contract is in place, orders can be issued and quickly satisfied.

Carriers also seem to prefer that the full (send and receive) circuit requirement be contracted to the U.S. carrier. Through their established contacts they would coordinate with the host government and the local PT&T activation for the entire circuit requirement. While this has been the traditional approach, some host governments now seem to prefer the government-to-government contact as opposed to the government-to-carrier contact, particularly in the case of on-premise satellite stations. Because of divesture, however, many more companies are bidding circuitry and each is attempting to deal with the local PT&T in the proposal process. Consequently, the host government workload has increased.

The government-to-government approach creates an appreciable increase of effort by the Department of State. Whichever approach is followed, it is considered important that an effective pattern be established if circuitry, in the magnitude being proposed, is to be ordered and put into operation in a timely fashion.

Hardware

Early in the deliberations of the Working Group it became apparent, as others have proposed, that some new software driven hardware would be required to better control and manage the Network. The Working Group has carefully assessed this need and concluded that the Department of State must utilize a

- Assembly/Buffering
- Framing/Unframing
- Sequencing
- Flow Control
- Precedence Queuing
- Protocol Conversion
- Code/Format Conversion

Communications Network Processor.

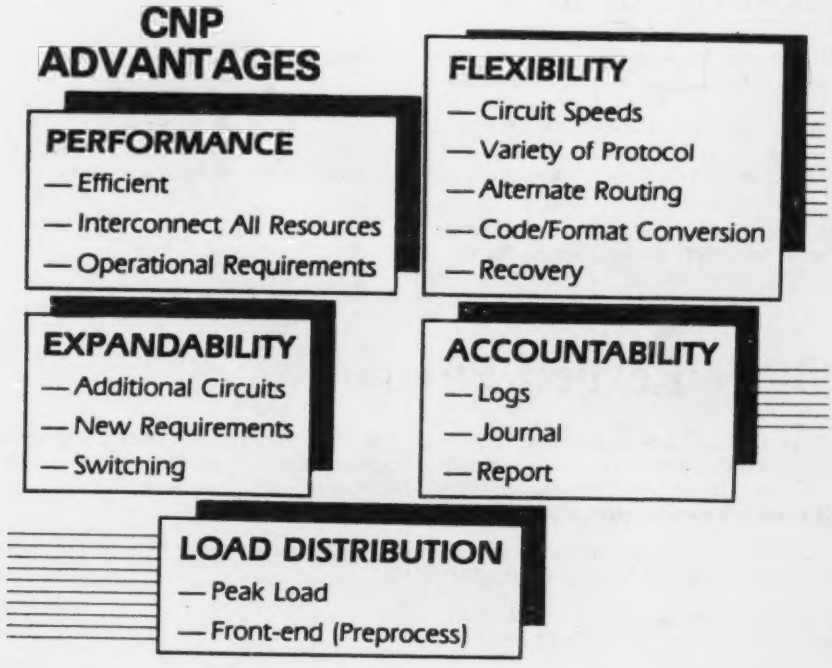
A Communications Network Processor (CNP) will be required at the Level-two hubs, the Level-three tier and at Level-four locations. Level-five posts will not require the CNP. The CNP would process a number of features, including the following:

- Transmission Error Control
- Switching
- Network Control/Recovery
- Access Control
- Transaction Record/Report
- Transparency.

Adopting the CNP is critical to the network design. In addition to the CNP functions, the network requires the utilization of a multiplex device for those applications such as TV and voice where the circuits will necessarily have to be dedicated for periods of time. The Working Group is examining the possibility of combining the CNP and multiplex functions into a single device for ease of logistical support and for cost reasons. The features of the CNP are not unique to the Department of State. Devices are on the market which contain some or all of the features. The Working Group is, therefore, proposing the issuance of a Request For Proposal (RFP) to contract the acquisition and integration of the CNP into the network. As a basis for the RFP, the Working Group issued a Request for Information (RFI) to a number of vendors to obtain information concerning their products. It is important to note that the Level-four posts need only a scaled-down model of the CNP. Also the Level-three CNP will be a streamlined version of that employed at the Level-two posts. Below is a rough estimate (full redundancy) of the quantities needed:

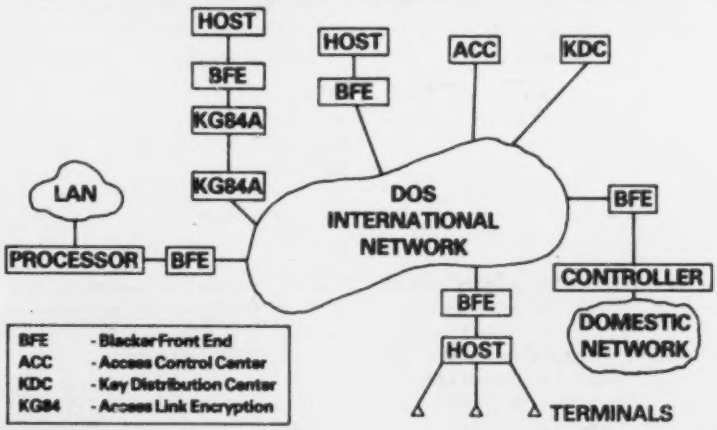
CNP (A-Model)	10 units
CNP (B-Model)	60 units
CNP (C-Model)	200 units

These quantities may require an initial one-time investment of $4 million a year over a four-year period.



In addition to the CNP, new hardware is required to maintain cryptographic synchronization on circuits where delays are encountered because of multiple satellite hops and to prepare the data for Packet Encryption. The long propagation delays of satellite links introduce an unacceptable delay in the path.

Typical Blacker Applications



The Working Group examined two ongoing government programs to determine their applicability in this area. NSA's BLACKER System initially showed some promise in solving the problem, but after further examination, major concerns arose because of the type of equipment in the DOS inventory. This is the device the Department of Defense (DOD) will use with the Defense Data Network (DDN). The Working Group would favor this avenue because NSA and DOD would have support mechanisms for this program. Because of the concern, however, the Working Group is examining other possibilities.

Coordination

The Working Group conducted a number of briefings over the past several weeks to representatives of interested activities:

- The DASC and A/OC Directors
- A/OC Components
- DTS Policy Board
- A/ITP (FAIS)
- A/ISO
- Customers (DOS and Non-DOS)
- IRCs
- DOS OC Regional Directors
- Special Activities

Also the Group had a number of meetings with other Departments and agencies to ensure that the approach taken allows for inter-operability.

Other Related Programs

The Working Group has developed a long-term network architecture needed by the Department to satisfy the requirements into the 1990's. To date the Group has not focused on current programs that relate to the long-haul networking. Three ongoing programs require examination to ensure that systems planned will accommodate the future design:

1. Alternate Communications Center with emphasis on the Central Technical Control Facility,
2. The management and implementation of the High-Speed Program and the Multiplex Equipment,
3. The Digital Telephone Exchange Program.

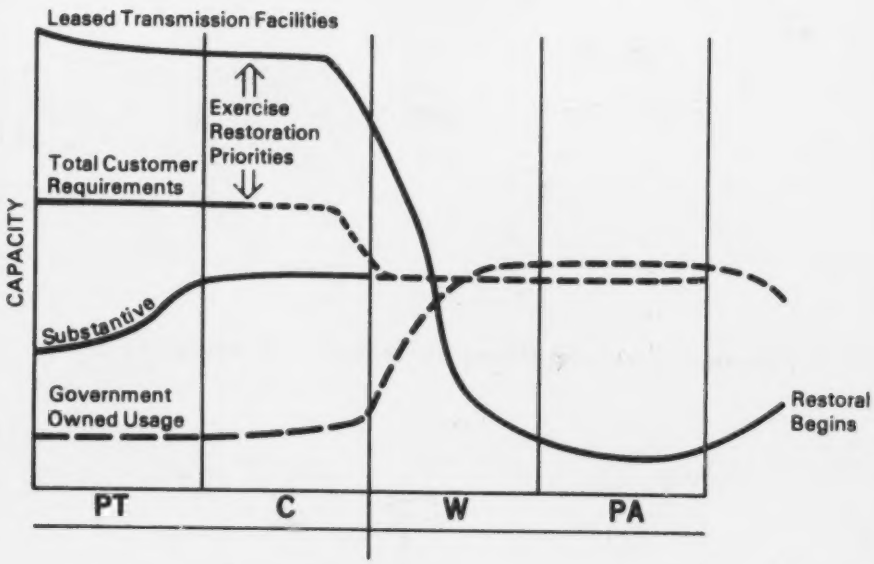
Program Management

The Working Group will continue its important work to implement the Network Architecture. The Working Group will be augmented with specialists from the government and the private sector.

Transmission Costs

The projection of recurring costs for transmission facilities to support the Network is estimated at $100-120 million. This amount would be offset significantly by the reduction of commercial international calls, the elimination of the LONDON TOLL dedicated-voice facilities, and the eventual phase-down of the present overseas message switches.

Network Availability Estimate



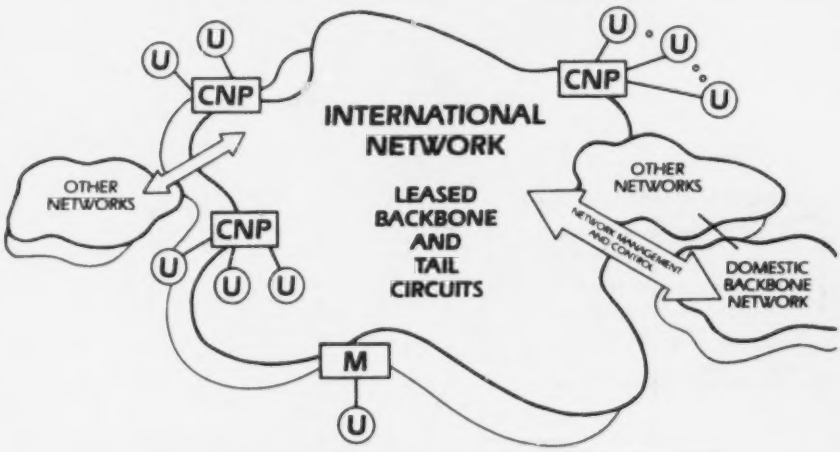
Summary

This document provides an overview—features and benefits—of a Network Architecture for the future, and an assessment of the influences—concerns and costs—that face managers considering the expansion of the Department's global telecommunications network. Aside from acquiring reliable transmission paths which are critical to the design of the enhanced network, a versatile Communications Network Processor (CNP) is needed to connect the customer equipment to the communications lines for data transfer in and out of the network and to manage the bandwidth effectively.

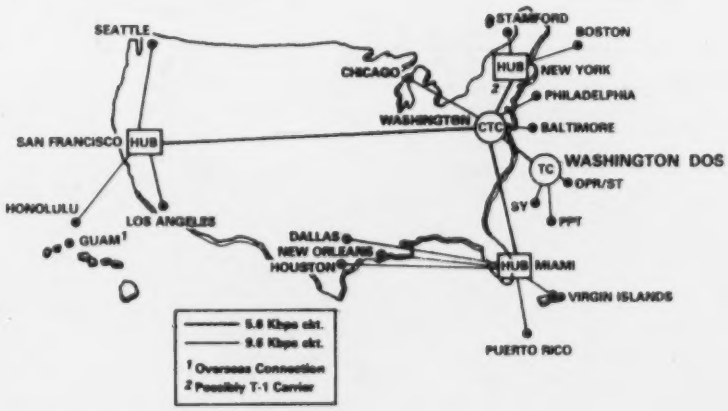
The network is an important asset of the U.S. Government and will operate into all countries in which the government has diplomatic relations. Compared with the past, the bandwidth may seem exhoribant, but the bandwidth proposed for microprocessors, as well as the growing dependence of all agencies on data communications as an essential component of their day-to-day operatons and special requirements, supports a network of this magnitude.

The network is envisioned as evolving into a high-capacity integrated data network with other media operations to meet 1990 requirements.

State Telecommunications Network



Proposed Interim Domestic Network Configuration

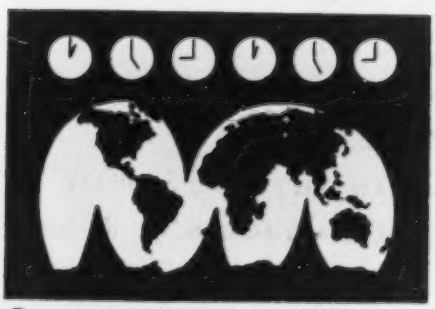


Telecommunications in Transition

The Department is ACCELERATING its application of NEW telecommunications techniques to meet its obligation as an

INTERNATIONAL CARRIER.

The Carrier role of the Department is becoming more complex, extremely important and growing significantly.



Communicate anywhere, anytime

71-303 0 - 87 - 29

D O S T N

WHAT IS IT?

DOSTN IS A WORLD-WIDE, SECURE, ADAPTIVE, HIGH-SPEED TELE-COMMUNICATIONS NETWORK.

DOSTN PROVIDES A WIDE RANGE OF USER SERVICES INCLUDING:

- o EFFICIENT PACKET-SWITCHING TECHNOLOGY FOR DATA AND RECORD TRAFFIC.
- o VOICE AMONG LARGE POSTS AND WASHINGTON (SIGNIFICANT OFFSETS).
- o SECURE VIDEO CONFERENCING CAPABILITIES BETWEEN MAJOR POSTS AND WASHINGTON (WHERE REQUIRED).
- o FACSIMILE AND ELECTRONIC MAIL AMONG ALL POSTS AND WASHINGTON

DOSTN SUPPORTS WITH AN ORGANIZED ARCHITECTURE:

- o DOS AND NON-DOS CUSTOMERS RESIDENT AT FOREIGN SERVICE POSTS.
- o DOS DOMESTIC USERS.

WHY DO WE NEED IT?

- o NATIONAL LEVEL AGENDA
- o DEPARTMENTAL RESPONSIBILITIES
- o FOREIGN AFFAIRS COMMUNITY
- o EMERGING REQUIREMENTS
- o HIGH NETWORK AVAILABILITY AND SECURITY
- o MORE EFFECTIVE USE AND CONTROL OF NETWORK RESOURCES
- o INTER-OPERABILITY WITH OTHER NETWORKS
- o SUBSCRIBER FLEXIBILITY OF HARDWARE AND SYSTEM COMPATIBILITY
- o ACCURACY/RELIABILITY (ERROR DETECTION AND CORRECTION)

OVERVIEW and JUSTIFICATION

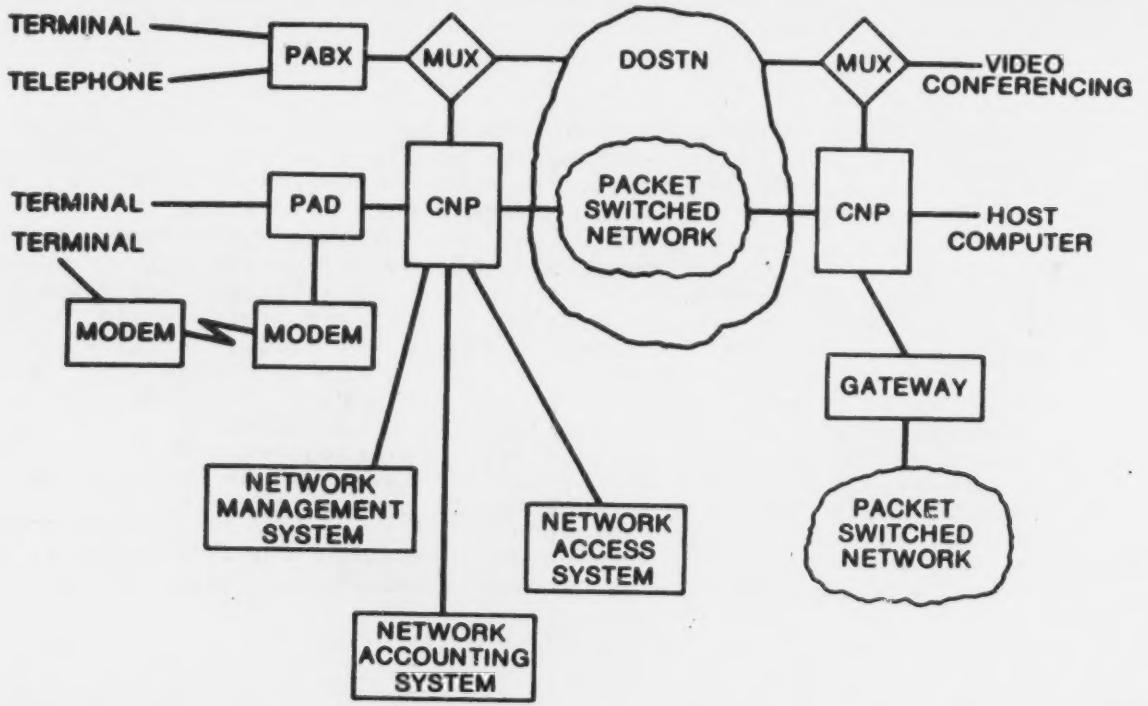
The Department has initiated a major effort to develop a worldwide leased telecommunications network architecture to accommodate requirements for secure television conferencing, voice, and data. The network structure utilizes hierarchical levels to serve large, medium and small Foreign Service posts employing high capacity circuits. The backbone international and domestic networks will be secure, with sufficient redundancy to assure high availability of bandwidth to the Department and to the foreign affairs community. The system will use a communications network processor to permit the sharing of the bandwidth and thus minimize the dedication of circuits to specific users. The sharing of bandwidth will be more efficient than allocating dedicated point-to-point circuits as is presently being done.

The Department of State Telecommunications Network (DOSTN) program is an enhancement of the Department's Commercially Leased Dedicated Circuit Program, High-Speed Program and other Ad Hoc-Circuit Acquisition Programs to support Foreign Affairs Agencies. The DOSTN integrates all circuit acquisition programs to provide a network that uses shared bandwidth effectively to provide a wide range of user services. This will allow the DOSTN to adapt to changing requirements of the Foreign Affairs Agencies. The DOSTN provides enhanced security to the network as well as providing for reduction in the vulnerabilities of the current network. The total circuitry required for the DOSTN is less than that currently being leased by the Department.

DOSTN
ATTRIBUTE SUMMARY

TECHNICAL	NON-TECHNICAL
HIGH NETWORK AVAILABILITY	EXPRESSION OF NEED FROM SENIOR MANAGEMENT
CONTROLLABLE NETWORK ACCESS	INCLUDED IN DEPARTMENT PLANS
RESPONSIVE NETWORK CONTROL	COMPETENT NETWORK OPERATION
INTEROPERABILITY AMONG MEMBER NETWORKS	SUPPORTIVE ENVIROMENT
FLEXIBLE DEGREE OF DEDICATION	REASONABLE COST AND SCHEDULE
WIDE RANGE OF USER SERVICES	FEASIBLE LONG TERM BUDGET SUPPORT
CAPABLE OF MAINTAINING USER CONFIDENTIALITY	RESTORATION PRIORITY
NETWORK SECURITY	ALTERNATIVE ROUTING PLAN
EFFICIENT USE OF BANDWIDTH	EXAMINATION SINGLE-THREAD VULNERABILITIES
TERMINAL FLEXIBILITY	USER REQUIREMENTS DATA BASE

DOSTN
COMPONENTS



PARTICIPATING ACTIVITIES

The Department of State Telecommunications Network (DOSTN) is designed to provide a wide range of communications services, including data, voice and video, between some 50 foreign affairs agencies and their representatives at more than 255 overseas diplomatic and consular posts. The DOSTN is to provide a mix of packet, message and circuit switching which will offer services at levels needed by individual customers while efficiently utilizing the bandwidth available at international network entry points. Under the present Hi-Speed Program concept, full-time circuits are dedicated to customers based upon their individual requests with little or no mechanism for dealing with varying information volumes or requirements for less than full time network access. An example of this is the Peace Corps, a customer which has indicated a need for 1.2 Kbps at 56 field locations, but with minimal requirements to move data other than to periodically update certain files, e.g., to update some files weekly and others once a month. The DOSTN will accommodate these low volume users with network access upon demand. However, until access has been requested no bandwidth is reserved, and is available for other users. To ensure maximum circuit path availability for command and control or National Security purposes, all user information categories are assigned a restoration priority. In the event of catastrophic failure or trunk capacity reduction for any reason, restoration priorities would govern the relative order for resuming service.

Principal DOS user offices have been approached to confirm current requirements and to determine known and projected future service needs. Those activities who have special requirements or large volumes of data to move, such as M/COMP(FMS), ISO, ITP(FAIS), CA, and have national-level requirements for video teleconferencing including activities involved in National Security and Emergency Preparedness planning were reviewed. Geographic Bureaus expressed interest in electronic mail and dedicated telephone connectivity with posts. CA is prepared to begin now with interactive and reactive data base access for passport and visa applicant reviews.

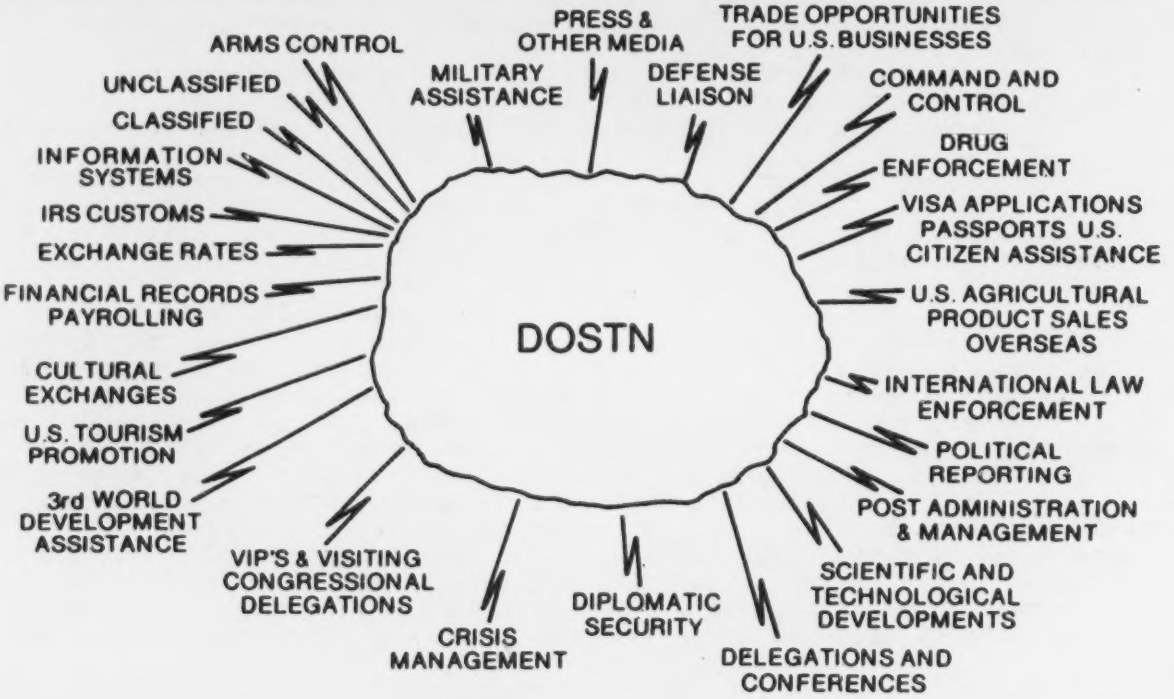
Large data volume users, such as the three Regional Administrative Management Centers (RAMCs) and 23 Financial Management Centers (FMSs) are located at major overseas posts which are DOSTN nodes connected directly to the Continental United States (CONUS) with high capacity circuits. Post size, activities supported, political and economic relationship with host country, geographical location, and existing telecommunications facilities were among factors considered in selecting sites for the major DOSTN nodes. ITP and ISO which may act as brokers for any number of DOS and non-DOS users for both classified and unclassified information will be provided connectivity and bandwidth as required for their needs. At all levels of the network, however, a design goal is to provide not only sufficient bandwidth to cover activities at the post, but to include adequate capacity for alternate routing caused by overloading or outages of other portions of the network; and to be able to make available immediate connectivity for VIP visits and/or crisis needs such as terrorist attacks.

The Office of Communications already has a number of formal written agreements with customer agencies currently being supported at overseas DOS installations resulting from Congressman Brook's mandate of 1980. NSDD 211 is also generating a number of additional requirements for communications services.

Meetings with individual customers are focused on developing an understanding of future customer needs at each post where they are represented. Statistical data is recorded including bandwidth requested, network access frequency desired, information flow end points, terminal equipment planned, fiscal years services to commence, and comments pertinent to the customer requirements. This information will be re-validated and revised to ensure that the requirement is realistic and within program budgets.

Section XIV-A provides summary descriptions of functions and responsibilities of U.S. Departments and Agencies serviced by the DOSTN.

DOSTN
ENVIROMENTAL FUNCTIONS



NETWORK ARCHITECTURE/IMPLEMENTATION PLAN

ARCHITECTURAL OVERVIEW

The Network Architecture and design is based on a conceptual model which will simplify the implementation, modification, enhancement, expansion and operation of the network and support its effective and efficient performance. The architectural objective is to use a well-understood and researched model enabling the architecture to benefit from state-of-the-art design and from available systems and technology.

The DOSTN concept is a design utilizing a domestic and international distributed network with hierarchical levels. The hierarchical portion of the network consists of five network levels as follows:

- Level-One - Department of State
- Level-Two - Domestic Hubs
- Level-Three - Major Activities
- Level-Four - Medium-sized Activities
- Level-Five - Other Posts

The distributed portion consists of Levels-One through -Three having multiple connections and Levels-Three through -Five being connected in a number of "star" configurations.

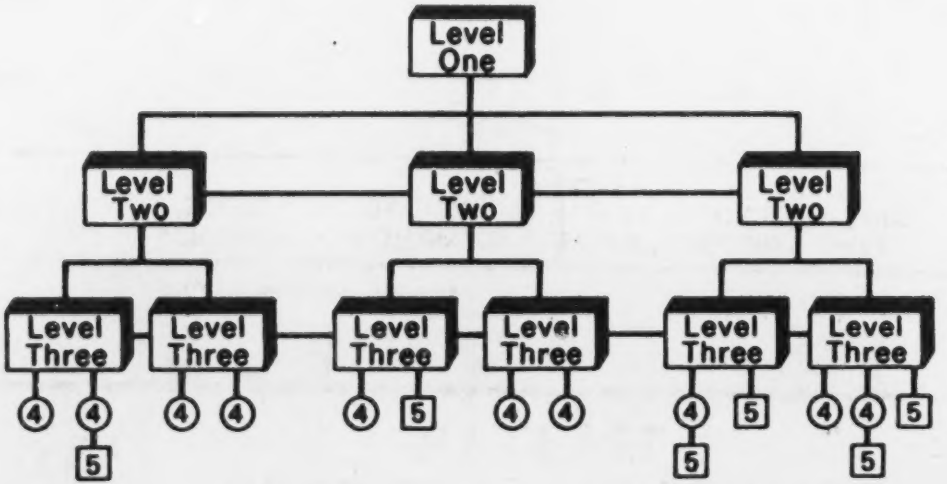
In the domestic portion of the network, the Department will be serviced by three domestic hubs as well as have its own special circuitry. The Department's Communications Center will function much the same as today, but with reduced message switching requirements.

The domestic hubs are engineered as sister stations which allows for each of three stations to service a Department of State geographic region as well as to backup the others in the event of catastrophic failure or scheduled shutdown. Each station would be functionally identical, fully interconnected and will facilitate the transfer of personnel from station to station without additional training.

These domestic hubs will service some 32 major posts overseas as well as domestic locations. These major posts will be grouped into three meta regions corresponding to the three domestic regional hubs.

Level-Three posts are major activities overseas. Level-Three posts would have leased redundant circuits to their parent Level-Two node and a sister Level-Two node. All Level-Three posts within a DOS region will be connected to two other locations and two Level-Three posts within a DOS region will be connected with one other Level-Three post in two other DOS regions. This redundancy will accommodate overloading and alternate routing of substantive traffic and circuitry in the event of trunk disruption or unusually high traffic volumes. Level-Three posts will have extra capacity to accommodate transportable packages deployed to support VIP's, special activities and backup circuitry for the government-owned system. Level-Three posts will also interface with the government-owned system and certain Level-Three posts will be connected to other USG networks, e.g., Department of Defense (DDN).

DOSTN
Architectural Concept

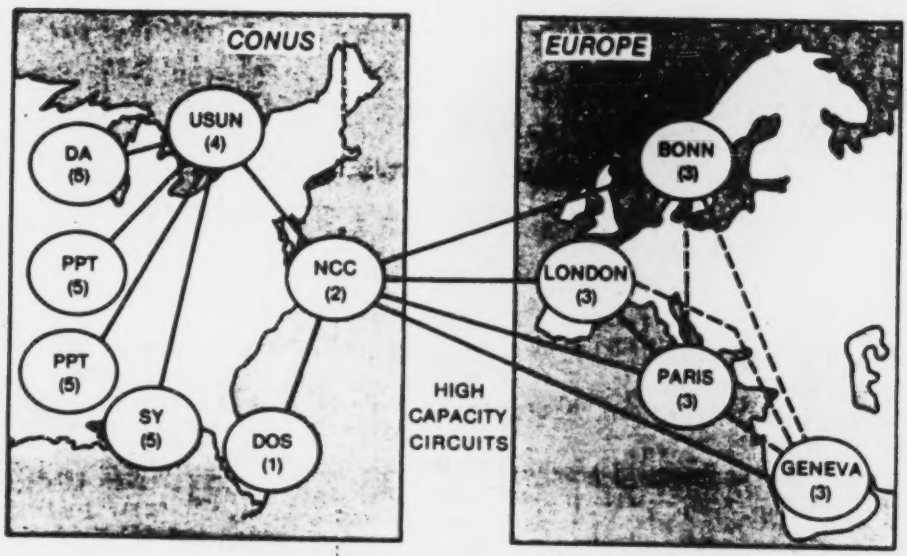


DOSTN
TRUNK SIZE AND SERVICE BY LEVEL

	TRUNK REQUIREMENTS			SERVICE				
LEVEL	VERY HIGH SPEED	HIGH SPEED (9.6)	HIGH SPEED (2.4)	SECURE* VIDEO ◆ CONF.	SECURE* VOICE	DATA/ RECORD	FAX	TEL.
ONE	X			X	X	X	X	X
TWO	X			X	X	X	X	X
THREE	X	X	X	X	X	X	X	X
FOUR		X				X	X	X
FIVE			X			X	X	X

* TRUNK SECURITY
◆ IF REQUIRED

The Department plans to initiate a DOSTN start-up program in FY-88 as illustrated below.



DA	Dispatch Office
PPT	Passport Office (2 in NY)
SY	Diplomatic Security Field Office
NCC	Network Control Center

The start-up program, which is phase I of the implementation plan, will test all components of the DOSTN data network at all five levels of the architecture. Existing circuitry will be used for the start-up program.

Under the start-up program, packet switch systems will be installed at the Level I, II, III, and IV posts. For the purpose of DOSTN, Level I is the Department itself where all information flow will generally terminate. The Level II locations are the domestic hubs which will be equipped with a communications network processor to perform network control and management functions. Level III is the first tier or major posts overseas. Level III embassies will be equipped with high speed black multiplexor capability as well as with packet switching capabilities. Level IV are medium sized posts which will be equipped with a packet switch. Level V posts will only have a packet assembler and dissembler installed. Cryptographic equipment presently installed overseas will be used to the degree possible. NSA developed End-to-End Encryption systems will be installed if available. No facility work such as power and air conditioning upgrades are envisioned in this phase.

BUDGET PRESENTATION

Communications

FY 1988 Justification of Program Changes:

-- Department of State Telecommunications Network (DOSTN) 5 positions and $5,000,000

Overview:

The Department of State Telecommunications Network (DOSTN) program is an enhancement of the Department's commercially leased High-Speed circuit program initiated in FY 1982.

The DOSTN is an integrated worldwide leased network to accommodate existing and emerging requirements for data, voice, and secure video conferencing well into the 21st Century. The backbone packet and circuit switching international network will assure high availability of circuit time to all Department customers and the foreign affairs community on a shared basis through a communications processor which controls and manages the network activity. This enhancement versus the current high speed circuit program, in which the circuits are purchased on a predetermined basis and can not be shared. The network control permits the execution of alternate routing procedures based upon established restoration priorities.

DOSTN is consistent with and satisfies those telecommunications responsibilities assigned to the Department by numerous National Security Directives and Executive Orders. Standardization, established policy and interoperability with other key national security communications networks has been addressed. In addition to satisfying new requirements, the efficiencies that will be realized by the DOSTN includes the telephone toll call savings to and from twenty-five major overseas Foreign Service posts; the phase out of the London Toll voice facilities; and the eventual elimination of major overseas switching centers which will reduce equipment and contractor costs.

Also by increasing the role of domestic Department telecommunications activities and designing the backbone network to operate basically in an unattended mode after normal business hours, the need to add American communicators overseas will diminish.

Resource Requirements/Cost Savings and Avoidance:

The DOSTN program is a five-year program beginning in FY 1988 with completion planned in FY 1992. The DOSTN program is projected to cost a net total of $118 million after taking into consideration $247 million in cost savings and avoidance, broken down as follows:

-- High Speed Program, $33 million;

These savings result from multiplex and cryptographic equipment reprogramming from the high-speed program.

-- OC circuits, $139 million;

The savings from high-speed circuits will finance approximately 75% of the DOSTN based on a 20% per year growth in the requirements for high-speed circuits.

-- Bureau Circuits, $17 million;

As DOSTN is implemented: all in-country circuits presently funded by the Regional Bureaus will be absorbed; wirerooms will be reduced and/or eliminated; and there will be cost savings realized by other agencies using call-up circuits for special applications.

-- Bureaus' Telephone Equipment, $44 million;

Savings will be realized when smaller posts (Level-IV and V) call into major overseas hubs (Level III posts) for access to the U.S. and when the London Toll circuitry is deactivated.

-- Bureau Personnel, 80 positions (74 FSN's and 6 Americans) and $10 million; and

The number of Foreign Service National positions will decrease because wirerooms will be reduced and/or eliminated at major overseas hubs, officers will be able to place their own international telephone calls, London Toll will be eliminated and there will be considerably less network responsibility at the Department's major switching system in Bonn.

-- Message Switching, $4 million.

The reduced network responsibility at the switching system in Bonn will result in cost savings in facilities, equipment, and software/hardware contract maintenance.

This program will support over 250 Foreign Service posts and 16 Domestic Offices with a total of 349 circuits. Thirty-eight positions will be required to implement the program, 5 of which are requested in 1988. These positions include 9 operational/technical controllers, 7 supervisory positions for round-the-clock operations, 2 administrative managers, 17 communications engineers/technicians, 1 communications security officer, and 2 operations officers.

FY 1988 requirements total 5 positions and $5 million. This includes $3.5 million for communications equipment and facilities (taking into account $.5 million of offsets), $1.4 million for contract support, and $.1 million for salaries and benefits. The five positions requested include network specialists and technical personnel to: direct the prime

contractor in activating the domestic and overseas installations; develop implementation schedules; coordinate with the posts concerned; and coordinate the government furnished equipment (GFE) including Network Security Architecture.

The consequences of not implementing the DOSTN program will mean higher recurring outyear costs for the rental of additional individual high-speed circuits to satisfy the Department's Foreign Affairs Information (FAIS) requirements, and increased demands from the Department's customers. In fact, based on a 20% per year growth in the demand for circuits, the current high-speed circuitry program will be costing the Department approximately $27 million more per year than the DOSTN by FY 1996.

October 10, 1986

Subj: DOSTN Cost-Benefit Synopsis

SUMMARY: A cost-benefit analysis of the proposed Department of State Telecommunications Network (DOSTN) versus continuation of existing DOS system methodologies shows DOSTN:

- is less expensive;

- buys more capability for less money; and

- has many secondary benefits.

BACKGROUND. The nature of communications technology results in two broad implementation strategies--dedicated circuits or shared circuits.

The current system uses dedicated circuits for each user. Small bandwidth users may be multiplexed together to run over a single leased line, but within that line, the user has total use of assigned bandwidth. For instance, a 1200 bit per second user may be combined with other users to send data over a single 9600 bit per second line. Nonetheless, the user has complete control over the assigned 1200 bit per second portion and, when not in use, this part of the line lies idle and unavailable for any other user.

Unused portions of existing lines are used to satisfy new requirements until new lines must be procured. Lines can be purchased only in certain incremental sizes. Slowly expanding requirements are thus often met by purchasing parallel leased lines, an inefficient procurement since line costs exhibit significant economies of scale.

Large telecommunications carriers have developed the concept of sharing lines through the use of switches. The most common example is the telephone system which shares lines among all users once a call reaches the local switching office. Very large systems use a hierarchy of switching centers culminating, in the case of the national phone system, in extemely large capacity satellite and fiber optic channels.

The major Department of State cost for either alternative is the line costs. The requirements of the Foreign Affairs community has grown to the point that the efficiency of sharing lines is very cost beneficial. The DOSTN uses the concept of shared circuits and hierarchal switching to provide superior service while, in the long run, reducing costs.

For the purposes of cost-benefit analysis, only DOSTN costs and capabilites related to the transmission of data were compared to those of the existing system. Capabilites and associated costs for video, facsimile, and voice transmission were screened out of the DOSTN data because these capabilities are not provided by the current system. Thus, cost figures shown are NOT budgetary.

ASSUMPTIONS. The existing system was projected into the future using cost and capability data experienced in the past five years (1982-86). This assumption is reasonable in view of the continuing increase in demand and the mandate to expand service to over 200 posts overseas. The Department's data transmission costs have been rising at a 20 percent per year pace. Because of economies of scale, this money has been increasing effective bandwidth by about 35 percent per year.

The increased service requires more equipment. With a 35 percent annual bandwidth growth, a new overseas exchange (like the Bonn Automated Exchange--BAX) is projected with a 1993 commencement of operations. The Beltsville Communications Center probably has enough capacity to handle the increased load. One or more new

computers may be needed, but, for conservative estimation, the cost benefit analysis did not project such.

DOSTN, as a telecommunications system, is conservatively expected to have a life cycle of at least six years after full implementation (end FY 1992). For the cost benefit analysis, costs and capabilities were calculated from the beginning of the five year implementation plan in FY 1988.

ANALYSIS. Applicable data was collected for the two alternates entered into a spread sheet for analysis. Appendix I presents the comparative summary data for both systems.

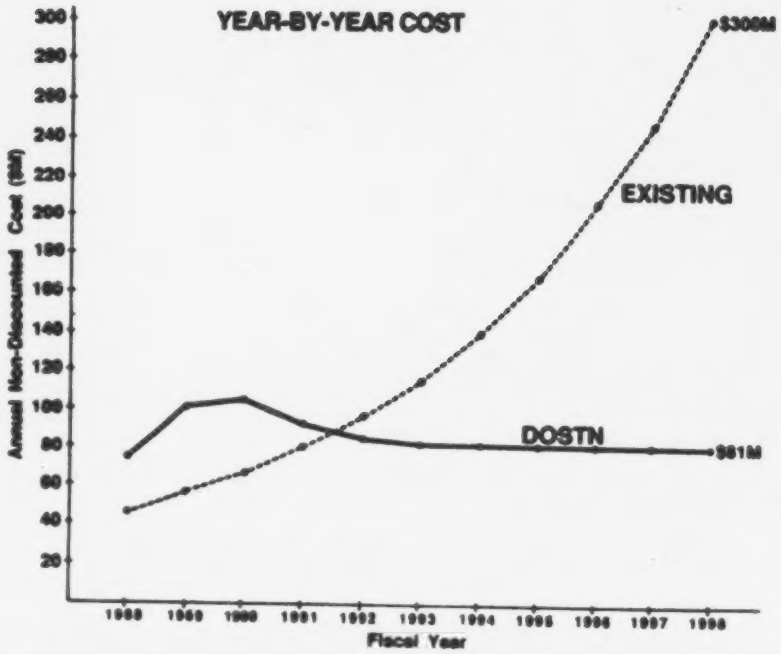
Figure 1 depicts the year-by-year data transmission costs of DOSTN versus existing system. More money is expended in the early years to procure the DOSTN infrastructure. Implementation of DOSTN buys efficient capability for the remainder of the 1990's resulting in a flat cost curve after 1992.

The existing system costs continue to grow as communications are expanded to posts not currently serviced by leased line and new equipment is purchased for implementation. The relative inefficiency of dedicated circuitry with centralized switching drives costs higher in later years.

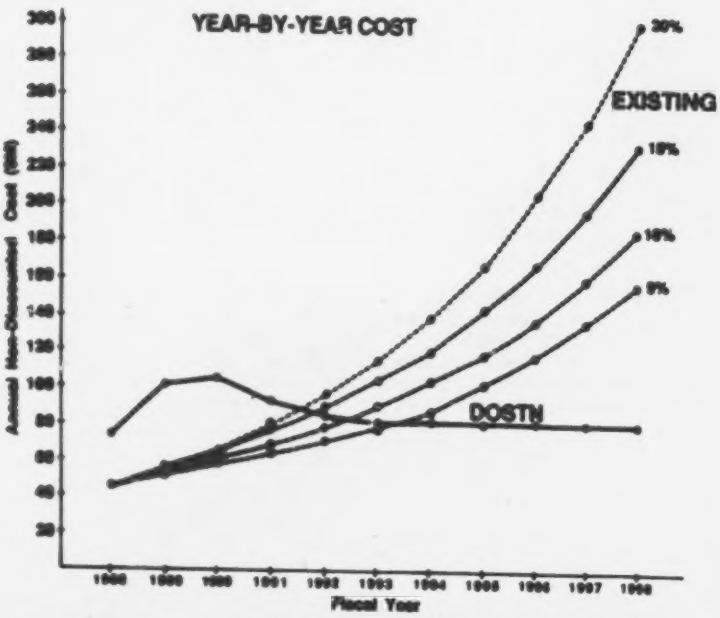
Figure 2 graphs the two systems accumulated costs after discounting and Figure 3 depicts the differential in costs (i.e., the difference between the two lines in Figure 2). DOSTN becomes less expensive after 1995 despite the larger outlays in the early years. Again, DOSTN's relatively efficient system design and resultant lower line charges makes it significantly more cost effective in the long run.

The capability of communications networks can be assessed using a methodology from graph theory which assesses the maximum theoretical data flow between each pair of posts. DOSTN provides more max flow earlier than the existing system because DOSTN uses shared lines and decentralized, hierarchal switching.

The following table depicts the year-by-year data transmission costs of DOSTN versus the existing system. More money is expended in the early years of implementation to obtain the DOSTN intrastructure. Implementation of DOSTN buys efficient capability for the remainder of the 1990's resulting in a flat cost curve after 1992.



The following table shows the year-by-year transmission costs of the existing system (at growth rates of 5%, 10%, 15%, and 20%) as compared to DOSTN.



DOSTN will be more cost-effective because it uses more efficient, modern switching techniques and is predicated on sharing. The existing system's basic methodogy becomes less efficient as the Department's and U.S. Government's needs grow. As requirements increase, the existing inefficiencies will be compounded, resulting in greater marginal costs and/or inability to meet requirements.

Figure 4 shows the ratio of technical benefits (max flow) to costs for both alternatives. DOSTN's combination of lower overall cost and greather max flow results in significantly higher ratios for DOSTN after 1990.

SECONDARY BENEFITS. DOSTN provides other improvements in comparison to the existing system.

DOSTN, with a more extensive use of node processors in a network hierarchy, is a much more robust system. The loss of communications lines due to technical reasons or overseas strife causes less degradation to DOSTN than the existing system.

Figure 5, extracted from a study on system connectivity, shows that DOSTN provides significantly more service when line availability is degraded. For example, when only 70 percent of the lines are available, the DOSTN configuration provides over 90 percent average connectivity while the existing method provides less than 50 percent. This difference is a key benefit of DOSTN's automated, decentralized switching which provides many alternate routings.

DOSTN responds to a variety of national objectives including the following National Security Decision Documents:

- NSDD-97, the primary initiative on national security telecommunications policy;

- NSDD-47, establishing the Emergency Mobilization Preparedness Board and containing a policy objective of "ensuring that communications resources be available and adequate to respond to the nation's needs.";

- NSDD-145, concerning improved protection for U.S. telecommunications from exploitation from hostile intelligence activities;

- NSDD-95, directing improved capability to manage crisis information in support of the President.

- NSDD-55, covering protection of the essential functions of the Presidency;

- NSDD-211, which requires all Federal departments and agencies with telecommunications requirements from Foreign Service posts to submit their requirements to the DTS.

DOSTN's systematic approach will allow more cost-efficient system growth when 21st century requirements push the limits of DOSTN capabilities. This expansion will most likely be driven by increased capacity needs overseas. These requirements can be easily met through increased networking of then existing equipment; procurement of more facilities or equipment will not be necessary.

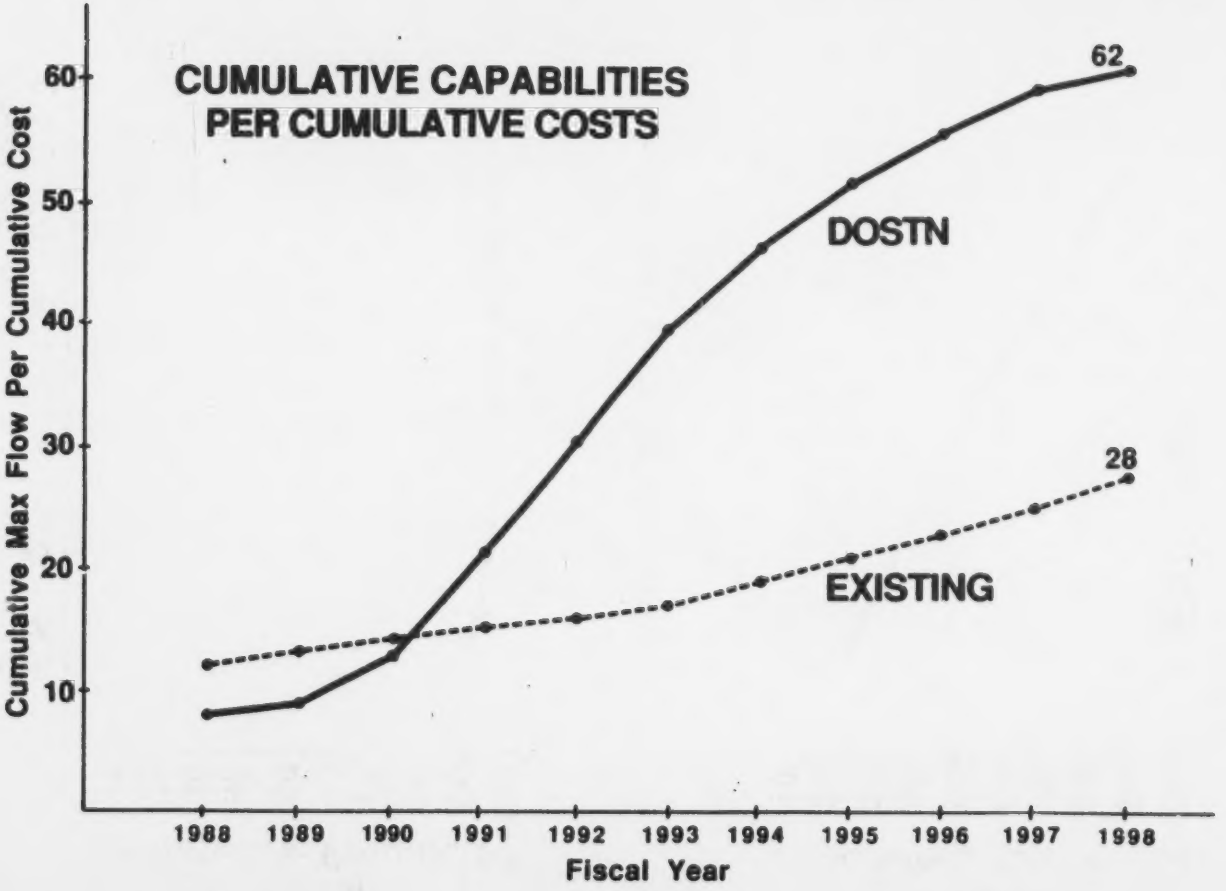
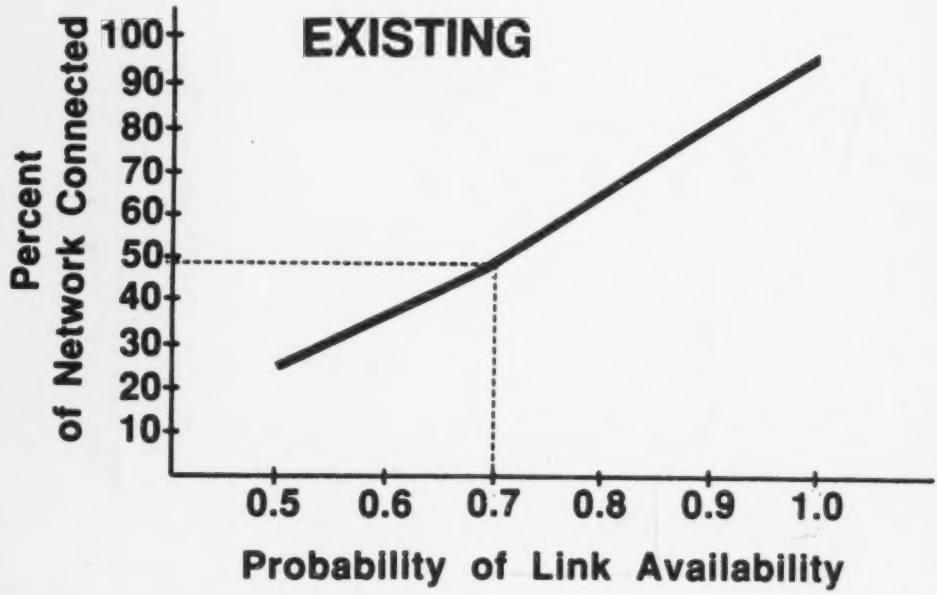

CUMULATIVE CAPABILITIES
PER CUMULATIVE COSTS
Cumulative Max Flow Per Cumulative Cost
60
50
40
30
20
10
62
DOSTN
28
EXISTING
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
Fiscal Year

FIGURE 4


EXISTING
Percent of Network Connected
100
90
80
70
60
50
40
30
20
10
0.5
0.6
0.7
0.8
0.9
1.0
Probability of Link Availability

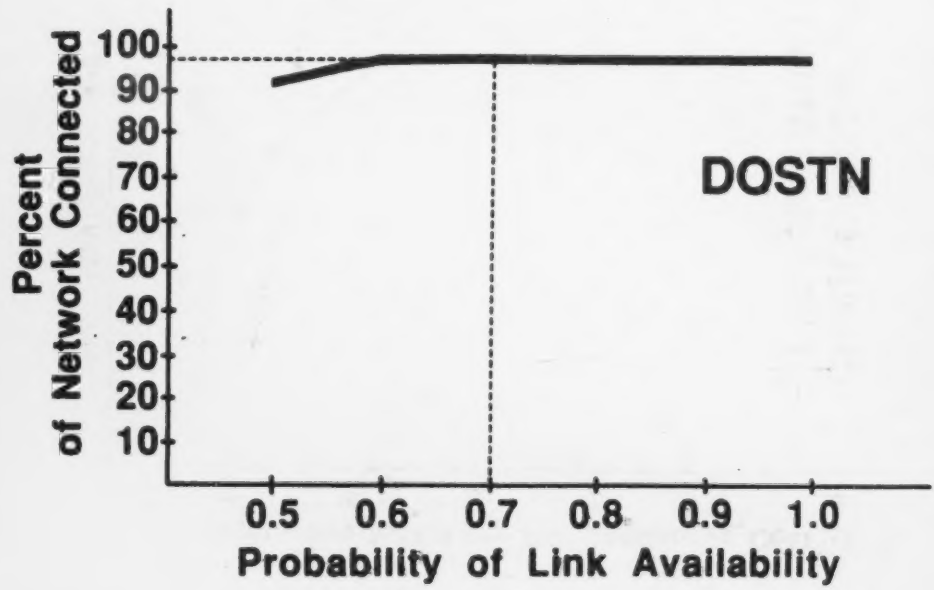

DOSTN
Percent of Network Connected
100
90
80
70
60
50
40
30
20
10
0.5
0.6
0.7
0.8
0.9
1.0
Probability of Link Availability

FIGURE 5

ABBREVIATIONS, ACRONYMS, AND DEFINITIONS

ACC	Acces Control Center
CNP	Communications Network Processor
CSD	Crypto Synchronizing Device
DCE	Data Circuit Terminating Equipment
DES	Data Encryption System
DTE	Data Terminal Equipment
HDLC	High-Level Data Link Control
IBS	International Business Service
KBPS	Kilobits Per Second
KDC	Key Distribution Center
KG	Key Generator (Encryption Device approved for National Security Information)
MUX	Multiplexer
NCC	Network Control Center
PAD	Packet Assembler/Disassembler
PDN	Public Data Network
SDLC	Synchronous Data Link Protocol
SNA	System Network Architecture (IBM's Proprietary Communications Architecture)
TCP/IP	Transmission Control Protocol/Internet Protocol
TDMA	Time Division Multiple Access (used as a satellite access technique)
T1	Circuit capable of Transmitting 1.554 Megabits per Second
TP-4	Telecommunications Protocol - Level IV
URDB	User Requirements Data BAse

Cost Savings and Avoidance:

-- High Speed Program, $33 million;

These savings result from multiplex and cryptographic equipment reprogramming from the high-speed program.

-- OC circuits, $139 million;

The savings from high-speed circuits will finance approximately 75% of the DOSTN based on a 20% per year growth in the requirements for high-speed circuits.

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As DOSTN is implemented: all in-country circuits presently funded by the Regional Bureaus will be absorbed; wirerooms will be reduced and/or eliminated; and there will be cost savings realized by other agencies using call-up circuits for special applications.

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The number of Foreign Service National positions will decrease because wirerooms will be reduced and/or eliminated at major overseas hubs, officers will be able to place their own international telephone calls, London Toll will be eliminated and there will be considerably less network responsibility at the Department's major switching system in Bonn.

-- Message Switching, $4 million.

The reduced network responsibility at the switching system in Bonn will result in cost savings in facilities, equipment, and software/hardware contract maintenance.

Question:

What are the components of the $44,966,000 provided for technical support?

Answer:

The $44,966,000 requested under Technical Support will provide for:

--Secretary of State Trips $2,013,000

Includes costs incurred in providing communications support to the Secretary such as equipment, new system development, shipping, installation, circuitry, operating supplies, local contract assistance and TDY support.

-- Communications Support for Special Representatives of the President $4,000

This is for costs incurred in providing communications support to Special Representative of the President.

-- Special Purpose Communications Facilities $493,000

Costs incurred to provide special communications equipment, installation and maintenance support to elements such as INR and S/S-O. Only for projects to be specifically identified by the Office of Communications.

--Meetings and Conferences $199,000

All costs incurred in providing communications support for meetings and conferences attended by Department of State representatives in response to specific tasking assigned to the Office of Communications by action offices in the Department. Includes TDY support of operators and technicians, provision and shipping of equipment, and establishment of facilities and circuits.

--Emergency Communications $42,257,000

Includes all costs incurred in providing communications support to establish, sustain, restore, refurbish, replace, dismantle or remove telecommunications operations at locations where normal support is impaired, inadequate, non-existent, no longer possible or not desirable due to the political situation, civil disturbance, or natural disaster. These funds are used only until normal communications support is established, or until the temporary support is no longer required.

Question:

Please provide the gross (not net) costs of the Department of State Telecommunications Network (DOSTN) on a yearly basis from 1988 through 1992.

Answer:

The estimated yearly gross costs of the DOSTN over the five-year implementation are FY-88 $5.5 Million, FY-89 $65 Million, FY-90 $83 Million, FY-91 $98.85 Million, and FY-92 $112.65 Million for a total of $365.0 Million.

Question:

What is the total budget for the Classified Information Handling System (CIHS) in 1987? What is the request in 1988?

Answer:

The total amount included in the FY 1987 budget for the Classified Information Handling System (CIHS) is $2,635,000. The Department included $2,726,000 in its FY 1988 request for the CIHS program. The increase of $91,000 represents a price increase of 3.5% for this program.

SECRETARY'S CONFERENCE ROOM

Question:

The Department is requesting $1,200,000 to renovate the Principal's Conference Room. Will this be the total cost of renovation, including shielding, furniture, and equipment? If not, what will be the total cost?

Answer:

This request for $1,200,000 will enable the Department to construct from completed architectural plans a physically, electronically, and acoustically secure facility in which the Secretary of State can discuss sensitive foreign policy matters in a fully secure environment. In a building open to the public, journalists, and representatives of foreign powers, the current lack of a large, secure facility for the Secretary is an unacceptable security risk.

The cost of furniture and equipment for the Principal's Conference Room will be absorbed within the existing budget base for these items.

DIPLOMATIC SECURITY

Question:

The Department is requesting an increase of 258 positions for the Diplomatic Security Program. Of the 536 positions authorized for FY 1987, only 121 had been filled as of January 31, 1987. Of the 121 positions filled, 70 were in the program to protect foreign dignitaries. Given the slow progress in filling positions for diplomatic security, why should additional positions be authorized?

Answer:

Passage of the FY 1986 supplemental late in the fiscal year meant that we had a late start in beginning to fill positions. It took several months to gear up for the large increase of 536 positions granted by the Congress in the FY 1986 supplemental appropriation for diplomatic security. However, the preliminary work has been completed, and substantial filling of positions is now underway. We have provided the Committee staff with a hiring plan which reflects the Department's intent to hire all 536 positions by the end of FY 1987.

Because we are making such significant progress in filling the remaining portion of the 536 new positions during the latter part of FY 1987, we believe that there will be no difficulty in hiring the 258 positions requested for FY 1988. These FY 1988 positions are required for critical security programs and every effort will be made to bring them on board in a timely fashion once Congress provides the resources

Question:

What are the direct and indirect costs associated with the request for 258 additional positions for diplomatic security?

Answer:

The direct (salaries and benefits) costs associated with these 258 additional positions are $3.2 million and the indirect costs (support) are estimated to be $10.5 million.

Question:

What is the relationship between the ongoing security program and the diplomatic security program? Are the 1,178 positions and the $167.7 million in the ongoing security program under the jurisdiction of the the Bureau of Diplomatic Security? If not, why not?

Answer:

The ongoing security program is composed of activities that were underway before the advent of the diplomatic security program. The diplomatic security program is comprised of initiatives undertaken pursuant to recommendations made by the Advisory Panel on Overseas Security chaired by retired Admiral Bobby Inman. Each program complements the other and there is no duplication of effort.

Not all of the 1,178 positions and $167.7 million in the ongoing security program are under the jurisdiction of the Bureau of Diplomatic Security. Within these levels 427 positions and $29.6 million are provided to other bureaus for communications, information systems, regional bureau, administrative, personnel, comptroller, and other infrastructure requirements to support worldwide security efforts by the Bureau of Diplomatic Security.

Question:

Please provide a detailed description of the overseas security operations (535 positions and $61.8 million in FY 1987) of the ongoing security program.

Answer:

Overseas security operations for FY 1987 are detailed in the following table:

Overseas Security Operations
(Dollars in thousands)

	Pos.	Funds
Technical and Regional Support	529	$49,540
Marine Guard Support	6	3,533
Seabees	--	8,681
Total	535	61,754

Question:

For those programs in Diplomatic Security for which there is a requested increase in 1988, provide the funding level and description of the base program. (NOTE: Descriptions should be at the program level and not the higher activity level.)

Answer:

The table on the next page summarizes the funding levels and base programs for FY 1988 increases in Diplomatic Security programs.

Diplomatic Security - Salaries and Expenses
FY 1988 Program Increases
(Dollars in thousands)

Item	Base Program Positions	Base Program Funds	Program Increases Positions	Program Increases Funds
Prevention of espionage:				
Shielded Enclosures	--	$1,974	--	$189
Technical Security Countermeasures	31	11,209	34	7,206
Technical Surveillence Countermeasures	--	---	4	1,214
Radio Frequency Shielding	5	1,513	18	1,718
Technical Collection and Analysis	--	---	--	4,287
ISS: U.S. Systems Mgrs.	27	3,845	35	1,750
Subtotal, Espionage Prev.	63	18,541	91	16,364
Protection of Equipment				
Protection of Classified Office Equipment	21	5,290	17	9,360
Plain Text Processing	--	---	24	3,630
Couriers	12	3,189	5	1,900
Subtotal, Equipment Prot.	33	8,479	46	14,890
Office Building Security:				
Domestic Security	9	3,430	--	1,000
Construction Security	--	---	12	13,295
Technical Security Equip.	--	---	--	5,152
Engineering Support	--	742	--	3,640
Seabees	--	---	--	2,038
Subtotal, Office Security	9	4,172	12	25,125
Protecting Americans/foreign dignitaries:				
Voice Privacy Radio	20	7,573	--	1,030
Visiting VIP Protection	25	2,196	80	3,274
Secretary's Travel	6	1,121	4	379
Secretary's Detail	--	---	--	800
Special Protective Equip.	1	51	1	35
Fully Armored Vehicles	--	---	--	1,358
Follow Cars	--	---	--	942
Subtotal, Protection	52	10,941	85	7,818
Counterterrorism R&D	--	---	--	9,000
Support:				
Policy and Training	17	1,968	17	921
Despatch/Warehouse	30	1,502	7	250
Subtotal, Support	47	3,470	24	1,171
Total program increases			258	74,368

0331C-5/6 #22

Question:

In the 1986 supplemental and the 1987 regular bill the Congress provided a total of $410.1 million and 536 positions for the Diplomatic Security Program in the appropriation for Salaries and Expenses. In its last official report to the Committee on the expenditure of these funds, the Department stated that as of January 31, only $48 million had been obligated and 121 positions filled. I certainly don't want to criticize the judicious use of funds; however, given the slow progress of the program, does it make sense to increase this portion of the program from $127 million to $231.7 million in 1988, or to add 258 additional positions, as the Department is requesting?

Answer:

Late passage of the FY 1986 supplemental and the delay in receiving funding in the FY 1987 Continuing Resolution meant that we had a late start in filling positions and funding our programs. It took several months to gear up for the large increase of 536 positions and $410 million granted by the Congress in FY 1986-7 appropriations for diplomatic security. However, the preliminary work has been completed, and substantial filling of positions and funding of programs are now underway. Regarding positions, we have provided the Committee staff with a hiring plan which reflects the Department's intent to hire all 536 positions by the end of FY 1987. Similarly, large portions of funding will be obligated in the latter part of FY 1987 since many of our diplomatic security programs are now underway. As an indication of this potential for obligation of funds, the January report showed $41 million in commitments in addition to the $48 million obligated.

Because we are making such significant progress in filling the remaining portion of the 536 new positions and obligating/committing funds during the latter part of FY 1987, we believe that there will be no difficulty in hiring the 258 positions and using the $231 million in funds requested for FY 1988. These FY 1988 positions and funds are required for critical security programs and every effort will be made to use these resources in a timely fashion once they are provided by Congress.

Foreign Buildings Office

Question:

The Department is requesting the deletion of bill language in the appropriation account "acquisition and maintenance of buildings abroad" regarding the reprogramming of funds. Why?

Answer:

The language regarding the reprogramming of funds relates to a new requirement that funds provided for diplomatic security construction projects not be obligated until the congressional committees are notified.

The Administration opposes the inclusion of such language in appropriations acts on the basis that it is restrictive on the executive function. Moreover, we anticipate that these requirements at the four stages of the construction program (site acquisition, design/development, construction contract

award, and furniture/furnishings procurement) may add up to four months to the completion schedule for each project.

The Department is required to keep the Congressional committees apprised of our progress on this important program and fully intends to report the status of our obligations on a monthly basis.

Question:

Of the sites identified for project supervision in the FBO (FBO-REG-28) identify those sites for which construction funds have not been provided.

Answer:

The projects for which construction funds have not been provided are:

Site	Funds (000's)
San Salvador, El Salvador	120
Mexico City, Mexico	400
Paris, France	380

The San Salvador request is to cover supervision during repairs to the current structure. The program management expenses related to the new chancery are included in the capital project totals as part of the 1988 request. The funds requested for Mexico City relate to a rehabilitation project. The Paris annex project is in the 1988 request.

Question:

The Department received $29.4 million in real property sales and miscellaneous receipts in 1986. What was the budgeted amount? If the receipts exceeded the budgeted amount, has the Department identified a use for these funds in 1987?

Answer:

The budgeted amount for proceeds of sales in 1986 was $2 million.

The funds generated from proceeds of sales and miscellaneous receipts were used in 1986 for the programs described below.

- A reprogramming request was sent to Congress as a result of a comprehensive evaluation of properties in Australia and London, England. The reprogramming provided for the sale of certain properties and the use of the funds derived from those sales to acquire replacement properties more suitable to the current programs in those countries. The proceeds in Australia were $5.4 million and in London, $3.2 million.

- The sale of the Ambassador's residence in Cairo realized $15.7 million, of which $3.2 million was paid as taxes on the sale. A reprogramming approved the use of the remaining funds for the increased costs stemming from the implementation of current security constructions standards for the Cairo office building after the first builder's contract was terminated for default.

- A new consulate building in Osaka-Kobe, Japan was built to our specifications under a lease/purchase agreement. As part of that agreement the builder was required to deposit with the Department of State $1.2 million for the procurement of certain U.S.-required materials. The materials were purchased by the Office of Foreign Buildings using the $1.2 million deposited in the miscellaneous receipts account.

- $2 million was received in reimbursements for work performed for other agencies by the Office of Foreign Buildings.

- The remaining $1.9 million, generated from the sale and rental of surplus properties, was used as the offset to the budget request.

Question:

Please list in priority order, the capital projects requested by FBO in FY 1988.

Answer:

Diplomatic Security	Ongoing
Bangkok	San Salvador
Rabat	Bonn
Athens	Paris
Istanbul	Ottawa
Ankara	DOD Housing
USAID projects	
USIA projects	
Department of Commerce projects	
Abu Dhabi	
Quito	
Kampala	
Madrid	

Question:

Please list budgeted versus actual costs for FBO projects in FY 1984, FY 1985, and FY 1986, for completed site acquisition, architectural design and engineering plans, and construction of relevant projects. Indicate the status of surplus funds in each case.

Answer:

Country/Post	Project	Approp.	(in thousands) Oblig.	Diff.
Guyana (Georgetown)	OBC/Dev	700	701	-1
Mexico (Mexico City)	Site Acq.	2,800	2,751	49
Portugal (Lisbon)	MSG/Const	1,950	1,950	0
Spain (Madrid)	OBC/Rehab	1,750	1,446	304
Bangladesh (Dhaka)	MSG/Dev	90	90	0
Total		7,290	6,938	352

The balance of funds was used to purchase various housing units in Africa.

Please note that this is a listing of completed projects

only (i.e., those for which final obligations have been made.) Additional funds were appropriated during these years for other, ongoing construction projects.

Question:

Mr. Secretary, the Department is requesting $12 million in supplemental funds to initiate design and construction of a new embassy complex in El Salvador to replace the current chancery that was destroyed by an earthquake. The eventual cost of the new complex will be $82.8 million. However, in fiscal year 1986 the Department received $29.4 million in real property sales and miscellaneous receipts into its building account -- $19.9 million above the budgeted level. Why isn't the Department proposing to use these funds rather than request additional appropriations?

Answer:

The funds generated in 1986 from proceeds of sales and miscellaneous receipts generally were generated from specific activities and were designated or spent for specific, related purposes as described below.

- A reprogramming request was sent to Congress as a result of a comprehensive evaluation of properties in Australia and London, England. The reprogramming provided for the sale of certain properties and the use of the funds derived from those sales to acquire replacement properties more suitable to the current programs in those countries. The proceeds in Australia were $5.4 million and in London, $3.2 million.

- The sale of the Ambassador's residence in Cairo realized $15.7 million, of which $3.2 million was paid as taxes on the sale. A reprogramming approved the use of the remaining funds for the increased costs stemming from the implementation of current security constructions standards for the Cairo office building after the first builder's contract was terminated for default.

- A new consulate building in Osaka-Kobe, Japan was built to our specifications under a lease/purchase agreement. As part of that agreement the builder was required to deposit with the Department of State $1.2 million for the procurement of certain U.S.-required materials. The materials were purchased by the Office of Foreign Buildings using the $1.2 million deposited in the miscellaneous receipts account.

- $2 million was received in reimbursements for work performed for other agencies by the Office of Foreign Buildings.

- The remaining $1.9 million, generated from the sale and rental of surplus properties, was used as the offset to the budget request, which had anticipated $2 million from proceeds of sales.

QUESTION:

Several weeks ago the President made a request to the Congress to provide $300 million in economic assistance to Central America. He proposed that $25 million of these funds come from the Diplomatic Security Program of the State Department, with the rest of the funds coming from the Defense

Department. Has the Administration formally withdrawn this request? If these funds are not used for economic assistance to Central America, are they available to offset the Deparment's supplemental request of $83.4 million for salaries and expenses?

ANSWER:

Although the Administration did not formally withdraw the request, the Department acknowledged the House plan through the Administration's position paper on the issue. Based on the actions surrounding this proposal, the Department assured the Congress that it intends to provide Diplomatic Security Funds for Diplomatic Security program activities.

Question:

Mr. Secretary, just a few months ago the Foreign Buildings Office supervised an average of 3 or 4 projects a year--and even at that had difficulty in completing projects according to specifications, of which the Moscow Embassy is a prime example. Now you have 61 projects--19 in construction, 21 in design, and 21 in site acquisition. In addition, you are requesting $502.8 million for 12 new projects in 1988. Aren't the funds we've already provided enough for the building program for the coming year? Shouldn't we wait to see how the program is progressing before initiating major new capital construction projects?

Answer:

The previous project management problems to which the question alludes relate to events that, unfortunately, did occur in the past. However, those events do not accurately reflect the current program situation. The Moscow project is substantially complete, with seven of the eight buildings on the compound occupied and providing long overdue relief to our employees who have lived for many years in substandard conditions. Construction of the office building is on hold and technical security problems must be resolved, but the structure itself is sound. Had it not been necessary to halt construction in August 1985 due to technical security problems, the chancery would have been completed by the end of this year.

A major theme of the Diplomatic Security Construction Program is the full-funding concept. That is to say, total funding requirements--including construction funds--are provided in advance to assure that the monies will be available when needed to complete the projects. Funds were appropriated in 1986-87 under the full-funding concept for specific projects and will be obligated after site acquisition and design/development functions have been accomplished (the bulk of the obligations will occur in the third year of the program). Thus the level of unobligated funds is not an accurate measure of the progress of the program in the early years. These unobligated balances will only be available to initiate additional projects through reprogramming.

The Diplomatic Security Construction program is being implemented successfully. Of the 25 projects funded in the FY-86 Supplemental and the FY-87 budgets, four are already in construction, and a contract for a fifth has just been awarded. We now have five projects under bid, seven in design development and planning, and eight in site acquisition.

The funds requested in the 1988 budget for capital projects are authorized under the planned five-year Diplomatic Security Construction program. If funding is denied in the third year of

RIO GRANDE RECTIFICATION PROJECT

Question

What would be the impact of delaying for one year the initiation of the Rio Grande Rectification Project under the jurisdiction of the International Boundary and Water Commission? What is the total projected cost of this project?

Answer

This joint project with Mexico for the improvements to the levee protection flood control project is estimated to be $10,000,000.

For the first time in 45 years the upstream reservoirs are full and excess waters are being spilled into the project in controlled amounts. I am concerned that we had become complacent about the protection because we had not had a flood for over 30 years and there is now a greater threat of flooding to urban developed lands that were previously devoted to agriculture.

If the committee could allow $2-3 million in FY88 we could perform the surveys of the 85 miles of work, complete the designs and award a start on the project of 5-10 miles at the upper end of the project in the heavily urbanized part of El Paso so that the impact of delay of completion would be minimized.

Question:

Please provide a summary of private contributions received by the Asia Foundation in FY 1985 and FY 1986, current FY 1987 contributions, and anticipated contributions in FY 1988.

Answer:

The following attachment, "Non-Government Support of the Asia Foundation", provides the summary requested to show private contributions received and anticipated by the Asia Foundation in FYs 1985 through 1988.

NON-GOVERNMENTAL SUPPORT

OF

THE ASIA FOUNDATION

1985, 1986, 1987 and 1988 Projected

I. INTRODUCTION

The private non-governmental support raised by The Asia Foundation which supplements the General Grant received from the U.S. Congress is comprised of cash and in-kind contributions donated by corporations, foundations, organizations and individuals. Additionally, private support is received in the form of services donated to the Foundation and income earned by the Foundation's endowment. Although not accounted for on the Foundation's balance statement, substantial support is also received from Asian sources in the form of housing, time, transportation, and administrative support for the hundreds of projects supported by the Foundation. All figures for fiscal years 1987 and 1988 are estimated projections.

II. TOTAL NON-GOVERNMENTAL SUPPORT

- o 1985 $13,959,121
- o 1986 $15,131,167
- o 1987 $18,292,000
- o 1988 $19,660,000

III. CASH CONTRIBUTIONS

		1985	1986	1987	1988
A.	Corporations	$ 624,447	$ 561,978	$1,000,000	$ 1,200,000
B.	Foundations	$ 324,736	$ 466,422	$1,300,000	$ 1,550,000
C.	Individuals	$ 141,169	$ 132,597	$ 200,000	$ 250,000
D.	TOTAL CASH CONTRIBUTIONS	$1,090,353	$1,160,997	$2,500,000*	$ 3,000,000

*At the end of the first six months of FY 1987, $1,063,272 in cash contributions had been received from all sources.

IV. ENDOWMENT INCOME

	1985	1986	1987	1988
A. Additions	$ 140,089	$ 155,678	$ 170,000	$ 180,000
B. Income Earned	$ 317,345	$ 398,574	$ 500,000	$ 600,000
C. Market Value (fiscal year end)	$4,404,338	$5,209,305	$6,000,000	$7,000,000

V. CONTRIBUTIONS-IN-KIND

A. Books Received:

	1985	1986	1987	1988
1. New books	751,194	895,672	950,000	1,000,000
2. Used books & journals	463,727	496,781	532,191	569,444
3. TOTAL	1,214,921	1,392,453	1,482,191	1,569,444
B. Audited Value of new books	$12,757,720	$13,765,476	$15,542,000	$16,360,000
C. Services	$ 111,047	$ 204,694	$ 250,000	$ 300,000

VI. MATCHING ASIAN CONTRIBUTIONS

In return for its assistance, the Foundation seeks a matching Asian contribution in time, resources and commitment. Grants made in Asia are viewed as partnerships with Asian institutions, and the support provided by host-country donors is crucial to the overall success of Foundation-sponsored initiatives.

Our Representatives report contributions and estimate the monetary value of in-kind assistance. Such support includes salaries of Asian project staff, local transportation for visiting American professors and consultants, and international travel for civil servants.

Estimated totals are:

1985	$6,600,000
1986	$6,907,182
1987	$7,283,469
1988	$7,762,209

VII. NON-GOVERNMENTAL DONORS OF CASH & SERVICES TO TO THE ASIA FOUNDATION: 1985, 1986, 1987

CORPORATIONS

Alexander & Baldwin
Allied Corporation Foundation
Allied-Signal, Inc.
American President Companies, Ltd.
American President Lines, Ltd, Sri Lanka
ARCO International Oil & Gas Co.
Arco Publishing Co.
Arthur Anderson & Co.
Aspen System Corp.
AT&T/Thailand, Inc.
Baker & KcKenzie
Baker & Taylor
BankAmerica Foundation, Inc.
Bank of America
Bank of America, Seoul
Banque Paibas
E.M. Baumann, Inc.
BEA Associates, Inc.
Bechtel Group, Inc.
Berry, Hartell & Evers
Bobbs-Merrill Co.
Book of the Month Club, Inc.
Borg-Warner Foundation, Inc.
Business International
British Motor Car Distributors Corp.
California & Hawaii Sugar Co.
Caterpillar Foundation, Inc.
Caravansary Caterers
Chase Manhattan Bank, N.A.
Chase Manhattan International Foundation
Chatham House Publishers
Chay Building Co.
The Chevron Fund
Chevron Corp.
Consolidated Freightways, Inc.
Creative Computing Press
R. Dakin & Co.
Deloitte Haskins & Sells
Diamond Shamrock International Petroleum
Dow Jones & Co., Inc.
Duke University Press
Duty Free Shoppers Group, Ltd.
Esso Standard Thailand, Ltd.
Facts on File, Inc.
Fluor Eastern, Inc., Indonesia
Follett Corp.
Freeport Indonesia, Inc.
Frontier Press Distributors Company
GA-Pacific, Inc.
General Factors, Inc.
Georgetown University Bookstore
Goodyear International Corp.
Gorsuch Scarisbrick Publisher
Grahan & James
Gulf Oil Corporation
G.K. Hall & Co.
Harcourt Brace Jovanovich Publishers
Heidrick & Struggles, Inc.
Hibernia Bank
Hill & Knowlton
Houghton Mifflin Company
International Pharmaceuticals Manufacturing Indonesia
Richard D. Irwin, Inc.
Johnson Reprint Co.
Jossey-Bass Inc.
Kaplen, McLaughlin, Diaz
Kearny Spring Co.
Komatsu America Corporation
Laidlaw Brothers
Lange Medical Publishers
Levi Strauss & Co.
Levi Strauss Foundation, Inc.
Little Brown & Company
MacGraw Hill Book Co.
MacMillan Publishing Co.
Matsushita Electric Corp.
McCutchen, Doyle, Brown & Enerson
McIntyre, Ltd., Canada
Marquis Who's Who, Inc.
Merrell Dow Pharmaceuticals
Mihaly International Corp.
Mobil Oil, Inc.
Mobil Oil, Indonesia
C.V. Mosby Company
National Semiconductor Corp.
NCR Corp.
Nissan Motor Corp. in the USA
W.W. Norton Company
Oceana Publications
Overseas Orient Cargo Lines
Pacific Telesis
Peacock Publishers
Peat, Marwick, Mitchell & Co.
Pertamina
Pfizer International Corp. S.A., Thailand
Philippine Geothermal, Inc.
Philippines Micronesia & Orient Navigation Co.
Prentice Hall, Inc.
Proctor & Gamble Philippine Manufacturing
Rand McNally & Company
B.T. Rocca, Jr. & Co.
Russell & Russell Reprints
Safeer Co.
Howard W. Sams & Company
W.B. Saunders Company
G. Schirmer Music Company
Scribner Books Company, Inc.
Security Pacific Foundation, Inc.
Shaklee Corp.
South Western Publishing Co.
Steck-Vaughn Co.
Tandon Computers, Inc.
Texaco, Inc.
Time-Life Books
Union Bank
University of Delaware Bookstore
University Park Press
University Press of America
United States Leasing
Utah International
Wadsworth, Inc.
The Warner-Lambert Foundation
Wells Fargo Bank
West Publishing Co.
John Wiley & Sons, Inc.
Williams & Wilkins
Wilton Packaging
Year Book Medical Publishers

FOUNDATIONS & ORGANIZATIONS

Altrusa Club of San Francisco
American-Thai Foundation for Education
Assumption Business College, Thailand
Atlantic Richfield Foundation
Bangkok Business College
Bangkok Christian College
Bangkok Institute of Technology
Bingham Enterprises Foundation, Inc.
Brayton Wilbur Foundation
Chiang Mai University, Thailand
Christian College
Chulalongkorn University, Thailand
Columbia Foundation
S.H. Cowell Foundation

Crown Zellerbach Foundation
Dhanakijpundit University
Earhart Foundation
Eiseman Charitable Trust
The Janet & Mortimer Fleishhacker Foundation
The William & Flora Hewlett Foundation
Indonesian Consulate General
International College of Dentists
Jamiyatul Islam Association
Japan Foundation
Khon Kaen University, Thailand
Kiwanis Club of Berea, Ohio
Korean Council for University Education
Krirk College, Thailand
Labor Dept. Library, Royal Thai Gov't
Levi Strauss Foundation
Henry Luce Foundation
Mission Hospital
Nakorn Pathom Rotary Club
NIDA, Thailand
Petroleum Authority of Thailand
Chumbol Pornprapha, Thailand
Prince of Songkhla University, Thailand
Private School Teachers Association
Rangsit College, Thailand
Rockefeller Brothers Fund
Rotary Clubs of Thailand
Royal Thai National Medical Department
Scherman Foundation
Silpakorn University, Thailand
Smith Richardson Foundation, Inc.
Sophonpanich Foundation
South-East Asia College
Srinakharinwirot University, Thailand
Sriworakarn School, Thailand
Starr Foundation
Thai Chamber of Commerce University
Thai Tapioca Trade Assn.
Thai Maize Growers Assn.
Thailand Tobacco Monopoly Labor Union
United Presbyterian Church
U.S.-Japan Foundation
Vachira Hospital
Walnut Creek Methodist Church

INDIVIDUALS

Terrence B. Adamson
William S. Anderson
Marjory Z. Bails
John A. Bannigan
Rose Ameser Bannigan
Eric Barnes
Prof. Todd Bender
Barry Bingham, Sr.
Thomas C. Blaisdell, Jr.
J. Dennis Bonney
R.R. Bowker
William F. Bramstedt
Dr. Ernest Briskey
Grayson Bryan
Mrs. Ellsworth Bunker
John B. Bunker
Mr. & Mrs. Samuel Bunker
Sandra Burton
Honorable George Bush
Howard Russell Butler, Jr.
Alexander D. Calhoun
Honorable J. Archibald Calhoun
Nelle E. Carmichael
Mrs. Lowell J. Chawner
Mr. & Mrs. Edward J. Chesky
Robert C. Child
Barbara Coghlan
Marjorie & Allan Cole
Richard P. Cooley
Jean & Herbert Corneulle
Richard Critchfield
Patricia J. Cummings
Anthony D'Agostino
Mrs. Louise Davies
Elbridge Durbrow
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Warren Faus
A. Barlow Ferguson
Esther H. Fleming
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Honorable Philip C. Habib
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James J. Halsema
Mrs. Peggy Hasker
Dr. & Mrs. Caryl P. Haskins
Honorable S.I. Hayakawa
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Richard Hooley
Mr. & Mrs. S.K. Hooper
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Mrs. John N. Irwin II
The Irwin Family
Dorothy C. Jameson
Mr. & Mrs. George F. Jewett, Jr.
Honorable U. Alexis Johnson
Mr. & Mrs. Raymond V. Johnson
Raymond Kaplan
Ken Kashiwahara
Acharn Taworn Kietthubthew
Robert Huntington Knight
Walter P. Knoepfel
Robert C. Leefeldt
Fernando L. Legaspi
J.B. Lehman
Ann K. Lenway
Arthur D. Levy
Honorable Gabriel Lewis
C.M. Li
Bette Bao Lord
Mrs. Sheldon Luce
Helen Mayden
George C.McGhee
K.J. Mysels
James R. Moore
Mrs. Maurice T. Moore
Annette J. Moran
Dr. Stephen Morse
Herwald H. Morton
Justice Stanley Mosk
Lance Director Nagel
Taworn Niroj
Philip J. Ouellet
George R. Packard
Charles Hall Page
Honorable Robert F. Peckham
Claire Perry
Mr. & Mrs. Rudolph A. Peterson
Lucian & Mary Pye
Honorable R. Sean Randolph
David Rubinfien
Christine H. Russell
Madeleine H. Russell
Alice & William Russell-Shapiro
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J. Andre Sauvageot
Robert A. Scalapino
Marjorie W. Seller
Mr. & Mrs. Charles N. Shane
Chin-yang Shih
Walter Shorenstein

John Siegel
Russell G. Smith
Richard Smulevitz
Miss Lora Spaulding
Lt. Col. Todd R. Starbuch
Mrs. Carl W. Stern
Justice Apichart Sukkagganond
Eliot J. Swan
Mildred Talbot
Phillips Talbot
George Tanham

Doris Treakle
Amelia H. Trippe
Richard Ward
Barbara Walzer
Reverend John J. Weaver
Charles P. Weiner
James E. Wickersham
Brayton Wilbur, Jr.
Dr. & Mrs. Haydn Williams
Jean J. Yamada
K.A. Yamakawa

VIII. DONORS OF BOOKS AND JOURNALS: 1985, 1986, 1987

PUBLISHERS

A & L Publications—IL
Addison-Wesley Publishing Co. Inc.—MA
Anderson World Books, Inc.--Mountain View, CA
Arco Publishing, Inc.--New York, NY
Aspen Systems Corporation—Gaithersburg, MD
The Bobbs-Merrell Company--Indianapolis, IN
Book-of-the-Month Club—Mechanicsburg, PA
Chatham House Publishers Inc.—Bridgeport, CT
College Hill Press—CA
Creative Computing Press—Morris Plains, NJ
Dellen Publishing Company--CA
Duke University Press--Durham, NC
F. E. Peacock Publishers, Inc.--IL
Facts-on-File, Inc.--New York, NY
Freeman Cooper & Company--CA
Frontier Press Distributing Company--Indianapolis, IN
The Gilford Press—NY
Gorsuch Scarisbrick Publishers--Dubuque, IA
G. K. Hall & Company--Boston, MA
Harcourt Brace Jovanovich, Inc.--New York, NY
Harper & Row, Inc.--NY
D. C. Heath & Company—MA
Houghton Mifflin Company--Burlington, MA
Interstate Printers & Publishers--IL
Richard D. Irwin, Inc.--Homewood, IL
Johnson Reprint Corporation--New York, NY
Jossey-Bass, Inc.--San Francisco, CA
King Features Syndicate—Bergenfield, NJ
Laidlaw Brothers—River Forest, IL
Lange Medical Publications--Los Altos, CA
Lawrence Erlbaum Associates, Inc.--NJ
Learning International--CT
Little, Brown & Company--New York, NY
Love Publishing Company--CO
MacGraw Hill Book Company--New York, NY
Macmillan, Inc.--New York, NY
Marquis Who's Who, Inc.--Chicago, IL
Mayfield Publishing Company—Palo Alto, CA
C. V. Mosby & Company--Cincinnati, OH
National Textbook Company--IL
W. W. Norton, Inc.--New York, NY
Oceana Publications—Dobbs Ferry, NY
Richard C. Owen Publishers--NY
Prentice-Hall, Inc.--Englewood Cliffs, NJ
Rand McNally & Company—Saddle Brook, NJ
Random House, Inc.--NY
Russell & Russell Reprints--New York, NY

Howard W. Sams & Company--Philadelphia, PA
G. Schirmer Music Company--New York, NY
Scott, Foresman & Company--IL
The Scribner Book Companies, Inc.--New York, NY
Silver Burdett Company--IN
Sinauer Associates, Inc.—MA
South Western Publishing Company--Cincinnati, OH
Steck-Vaughn Company-Austin, TX
Time-Life Books—Alexandria, VA
University Park Press-Baltimore, MD
University Press of America--Lanham, MD
Viking Penguin Inc.--NJ
Wadsworth, Inc.--Belmont, CA
Westview Press—Boulder, CO
John Wiley & Sons, Inc.--Somerset, NJ
William Kaufmann, Inc.--CA
The Williams & Wilkins Company--Baltimore, MD
World Book Inc.--IL
Year Book Medical Publishers--New York, NY

COLLEGES AND UNIVERSITIES

Bemidji State University—Bemidji, MN
Brevard Community College--Cocoa, FL
California Institute of Technology--Pasadena, CA
California State University--Northridge, CA
California State University/Sonoma—Rohnert Park, CA
California State University/Stanislaus—Turlock, CA
Center for Strategic & International Studies—Wash D.C.
Central Michigan University--Mt. Pleasant, MI
Earlham College--Richmond, IN
Emory University--Atlanta, GA
Frostburg State College—Frostburg, MD
Gonzaga University--Spokane, WA
Harvard University--Cambridge, MA
Indiana University of Pennsylvania--Indiana, PA
Iowa State University--Cedar Rapids, IA
Loyola Law School--Los Angeles, CA
Mathematical Sciences Research Institute, University of California—Berkeley, CA
Merritt College--Oakland, CA
Monmouth College—Monmouth, IL
Northwestern University--Evanston, IL
Notre Dame University--IN
Oregon Institute of Technology--Klamath Falls, OR
Oregon State University—Corvallis, OR
Portland State University--Portland, OR
Siena College-Loudonville, NY
Southwestern College--Chula Vista, CA
Squibb Institute for Medical Research--Princeton, NJ
Stanford University--Stanford, CA
Tri County Technical College--Pendleton, SC
United States International University--San Diego, CA

University of California—Berkeley, CA
University of California Lawrence Berkeley Laboratory--CA
University of California--Davis, CA
University of California--Los Angeles, CA
University of California—San Francisco, CA
University of California--Santa Cruz, CA
University of Delaware--Newark, DE
University of Illinois—Urbana, IL
University of Louisville--KY
University of Ohio--Athens, OH
University of the Pacific—San Francisco, CA
University of Pennsylvania--Philadelphia, PA
University of San Francisco—San Francisco, CA
University of South Carolina--Columbia, SC
University of Utah--Salt Lake City, UT
University of Washington—Seattle, WA
University of Wisconsin—Madison, WI
University of Wyoming--Laramie, WY
West Virginia University—Morgantown, WV
William Rainey Harper College--Palatine, IL
Wilmington College-Wilmington, OH

BOOKSTORES (College & University)

A.S.U. Bookstore, Angelo State University—San Angelo, TX
A.S.U.N. Bookstore, University of Nevada--Reno, NE
Associated Students Bookstore, Orange Coast College--Costa Mesa,
Beaver Bookstore, American River College--Sacramento, CA
The Book Mark, Gustavus Adolphus College—St. Peter, MN
Cal-State Bookstore, California State University--Hayward, CA
Campus Store, Southwestern College--Chula Vista, CA
Chabot College Bookstore--Hayward, CA
College of San Mateo Bookstore—San Mateo, CA
The College Store, States University College--Oswego, NY
Colorado Book Store--Boulder, CO
Dordt College Bookstore--Sioux Center, IA
Dubois Bookstore, Inc.--Kent, OH
Essex Community College Bookstore--Baltimore, MD
Georgetown University Bookstore—Washington, DC
Greenville College Bookstore--IL
Harper College Bookstore--Palatine, IL
Hornet Bookstore, California State University--Sacramento, CA
Isla Vista Bookstore—Goleta, CA
Jacksonville University Bookstore--Jacksonville, FL
Joliet Junior College Bookstore--Joliet, IL
Keydet Book Store, Virginia Military Institute--Lexington, VA
Lake Superior State College Bookstore—Sault St. Marie, MI
Long Beach City College Bookstore--Long beach, CA
Manzita Bookstore, Columbia Jr. College--Columbia, CA
Miami Dade Bookstore--Miami, FL
Minnesota Book Center, University of Minnesota—Minneapolis, MN
Missouri Valley College Bookstore--Marshall, MO
Montana State University Bookstore—Bozeman, MT

Northern Illinois University Bookstore--DeKalb, IL
Northwestern Oklahoma State University Bookstore--Alav, OK
Princeton University Store--Princeton, NJ
Student Center Bookstore, Northern Illinois University--Dekalb, I
The Trident Shop, California State University--Los Angeles, CA
UCD Bookstore, University of California--Davis, CA
UCSB Bookstore, University of California--Santa Barbara, CA
University Book Center, University of Colorado—Boulder, CO
University Bookstore, Kent State University--Kent, OH
University Bookstore, University of Delaware--Newark, DE
University of Hawaii Bookstore--Honolulu, HI
University of South Alabama Bookstore—Mobile, AL
William Rainey Harper College Bookstore--Palatine, IL
Yuba College Bookstore--Marysville, CA

SCHOOLS (Elementary, Secondary, Districts)

Bolinas Stinson Union School District—Bolinas, CA
Katherine Branson School—Ross, CA
Overbrook School For The Blind--Philadelphia, PA
San Diego High School—San Diego, CA
San Ramon Valley Unified School District—San Ramon, CA

BUSINESS FIRMS

Aaronson, Dickenson and Lanzoe—San Carlos, CA
Ampex Corporation—Redwood City, CA
Baker & Taylor--Reno, NE
Barnes-Hind, Inc.--Sunnyvale, CA
Black Oak Books--Berkeley, CA
Blackwell North America--Lake Oswego, OR
Brown & Williamson Tobacco Corporation--Louisville, KY
California First Bank—San Francisco, CA
Carrington, Coleman, Sloman & Blumenthal--Dallas, TX
College Book Company of California--Garden Grove, CA
Commercial Minerals Company--Newark, CA
Conoco, Inc.--Houston, TX
Deliverex--San Jose, CA
Erickson, Arbuthnot, et al—Oakland, CA
Flehr, Hohbach, Test, Albritton & Herbert--San Francisco, CA
Follett College Book Company--Chicago, IL
Gulf Oil Corporation--Pittsburgh, PA
Information Management Consultants, Inc.--San Francisco, CA
JHK & Associates--Emeryville, CA
Leonard and Carder—San Francisco, CA
Mail Boxes Plus--Athens, GA
Matrecon—Alameda, CA
Merrell Dow Pharmaceuticals, Inc.,--Cincinnati, OH
Missouri Book Services—Colubia, MO
Moe's Books--Berkeley, CA
Murphy, Weir & Butler—San Francisco, CA
The Nature Company--Berkeley, CA

Nebraska Book Company--Lincoln, NE
R&D Associates--Marina del Rey, CA
Security Pacific National Bank--Los Angeles, CA
TMA/EAL Corporation--Richmond, CA
Tower Books--Sacramento, CA.
Tower Books--San Mateo, CA
Varian Associates--Palo Alto, CA
Wilcox Follett Corporation--Chicago, IL
William Kaufman, Inc.--Los Altos, CA

ORGANIZATIONS, LIBRARIES, ETC.

Alameda Hospital Library--Alameda, CA
Alta Bates Hospital--Berkeley, CA
American Chemical Society--Berkeley, CA
Argonne National Laboratory--Argonne, IL
Association for Asian Studies, Inc., University of Michigan--Ann Arbor, MI
Association for Library & Information Science Education--State College, PA
Behavior Science Center--Stanford, CA
Berkeley Public Library--Berkeley, CA
California State Department of Industrial Relations--San Francisco, CA
California State Department of Transportation--Sacramento, CA
Chiang Mai Mission Board--Ann Arbor, MI
Community Colleges for International Development, Inc., Waukesha County Tech.--Intitute, WI
East-West Center--Honolulu, HI
Electric Power Research Institute--Palo Alto, CA
Franklin Institute--Philadelphia, CA
Friends of the Berkeley Library--Berkeley, CA
The Heritage Foundation--Washington, DC
Herrick Hospital & Health Center--Berkeley, CA
Kaiser Foundation Hospital--Walnut Creek, CA
Kaiser Permanente Medical Center--San Rafael, CA
Meals for Millions, FHF--Davis, CA
Media Center--Menasha, WI
Medi/Physics Laboratory--Emeryville, CA
Memorial Medical Center--Savannah, GA
Mills-Peninsula Hospitals--San Mateo, CA
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Novato Public Library--Novato, CA
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QUESTION:

As you know, we're beginning to review options on the Budget Committee to develop a fiscal year 1988 budget package. As you heard when you appeared before the House Foreign Affairs Committee last week, these options likely include substantial reductions for international affairs programs, especially foreign aid. For the current fiscal year the Department is receiving $1,527,000,000 for its salaries and expenses account. The Congressional Budget Office has calculated that a modified freeze for this account, including increases for mandatory items, would provide $1,650,000,000 for salaries and expenses in 1988. This is approximately $200 million below your request, but it probably represents the most optimistic outcome for the Department. What impact would such a level have on the operations of the State Department?

ANSWER:

To provide for services at the current level, an increase of $235 million for mandatory items would be required over the Department's 1987 salaries and expenses appropriation of $1,527,000,000. This includes an estimated exchange rate loss of $15 million incurred since the 1988 budget was transmitted. These mandatory increases include funding for wage and price increases and exchange rate losses and the new Federal Employees Retirement System (FERS).

An appropriation of $1,650,000,000 would provide for only $123 million of these mandatory increases. The remaining $112 million would have to be found from reprogramming from within existing resources. The Department is looking at a number of possible ways to meet funding shortfalls, none of which are attractive.

First we have considered a continuation of the same kinds of things we have been doing over the past two years, i.e., cutting operating costs at the margin. The problem with this approach is that these cuts weaken our ability to perform the mission of the Department. The most reasonable of these would decrease hiring to less than attrition in all types of employment, including the Foreign Service, Civil Service, Foreign Service Nationals and part-time employees. In other categories there are many things that need to be done, e.g., continuing to conserve energy and thereby cutting utility costs, making long distance telephone calls only when other means of communication are impractical or untimely, consolidating travel and transportation as much as possible and eliminate unnecessary overtime. These are the kinds of things we have always tried to do to make our operations more efficient, particularly since 1986, and little remains to be done.

The only way to make further reductions is to cut programs or people. Since the Department of State is an agency with few programs per se (and even then, the programs are in support of our employees and productivity), the only other way to reduce costs after reducing, or canceling, programs is to reduce the number of people on the rolls.

Reductions in the few programs the Department does have would include many of the automation measures underway to bring up the efficiency and productivity of the Department, such as information systems programs (Foreign Affairs Information System, Classified Information Handling System, Consular Lookout, FSN Payroll and Personnel Systems and Support System

and INR Information Support System) and communications programs (Terminal Equipment Replacement Program, voice radios and Department of State Telecommunications Network). In addition, funds could be saved by extending the vehicle replacement cycle of our fleet beyond the present 7 years to 10 years. Obviously, reductions of this kind could result in increased costs in other areas, such as vehicle repair costs and increased overtime.

Some other savings would result from changes in the way the Department does business; however, these do not save large sums of money and many would require changes in statutes and regulations and could result in major dislocations. Some of the suggestions under discussion are elimination of hardship differential payments for posts presently classified at the ten percent level, limitations on FSN wage increases, reductions in hospitalization costs, reductions in the Department motor pool, elimination of Sunday Premium Pay in Muslim countries and a one time extension of present overseas tours by one year to save assignment travel costs.

After all of these reductions have been made, the only place were further savings can be had is from staffing cuts.

POST CLOSINGS

Question:

Mr. Secretary, last year we approved the closing of seven consulates overseas. Pending before the Subcommittee is a request to close seven additional consulates. What savings would occur in 1988 if this reprogramming is approved? Does the size of the Department's security program threaten to "crowd out" normal diplomatic operations such as the operation of these consulates?

Answer:

Attached is a table showing identifiable budgetary savings, amounting to approximately $3.1 million in fiscal year 1988, to be derived from the post closures planned for the remainder of this fiscal year. Beyond these identifiable savings, there is a significant cost-avoidance for out-year personnel and support expenditures. Closing seven consulates this year will save on future expenditures for U.S. and foreign national personnel, communications, rents, security, information systems, equipment and the like. While the annual savings of approximately $3.1 million would seem to be only a small portion of the Department's overall operating budget, or even of State Department operating costs for the country concerned, the downstream savings are significant when matched against new and higher priority program requirements, including new post openings.

Decisions on post closures have been based on the need to achieve economies in State Department operations, even at the margin, as a result of serious budget reductions in fiscal years 1986 and 1987, and also in light of U.S. global interests and priorities. It is not possible for the Department to keep within our existing budget or to maintain desired levels of operation in the constrained environment we almost certainly will face in fiscal year 1988.

In light of this severely constrained budgetary situation, economies must be made in all areas of State Department operations. For this reason, it is not a question of one program, such as security operations, "crowding out" other elements of the Department's operating budget.

POST CLOSING DATA
($ in Thousands)

POST	AMERICAN PRESENCE	STATE OPERATING COSTS($)	SECURITY UPGRADE COSTS ($)	POSITION SAVINGS AMERICAN	(STATE) FSN	CONSULAR WORKLOAD (No. of Services) NON-IMMIGRANT VISAS	IMMIGRANT VISAS	SPECIAL CONS SERVICES	PASSPORTS
DUSSELDORF	STATE 1 COMM 1 USIA 1	441	---	1	2	0	0	0	0
GOTEBORG	STATE 1	172	---	1	2	6290	0	645	188
MARACAIBO	STATE 3 USIA 1	220	---	1	2	7,656	0	2,311	1,043
SALZBURG	STATE 1	154	---	1	1	0	0	522	619
STRASBOURG	STATE 1	330	---	1	2	0	0	479	566
TANGIER	STATE 3 USIA 5 DOD 2	403	---	3	8	427	14	253	183
TURIN	STATE 1	215	---	1	3	0	0	0	0
SUB-TOTAL:		1,935	---	10	21				
SAVINGS ON AMERICAN S & E	+	1,200	(10 POSITIONS + 2 from Genoa)						
TOTAL ANNUALIZED SAVINGS		$3,135							

U.S./BRAZIL SCIENCE AND TECHNOLOGY AGREEMENT

Question:

The Department is requesting funds of $2 million for the U.S./Brazil Science and Technology Agreement and $5 million as a gift to the people of Australia in honor of their bicentennial to be used to construct a wing of a proposed Maritime Museum. I understand that Australia was generous in its support of our bicentennial, but we're already spending $8.2 million through the USIA for an exhibit at the Brisbane Expo '88. Isn't the best gift we can give the people of Australia a balanced budget and a stable American economy?

Answer:

As a member of the ANZUS alliance linking the United States, Austrialia and New Zealand, Australia plays a key role in our strategic defense interests in that part of the world.

In recognition of this relationship, the Australian government and private sector actively participated in the United States Bicentennial celebration. Approximately $7 million was provided in 1976 from the Australian government. Furthermore, additional Australian contributions to our Bicentennial include a gift of rare koalas, an abouginal art exhibit and a $1 million endowment toward furthering Australian studies at Harvard University.

To reciprocate for this participation, as well as in recognition of the many years of friendship and cooperation between two nations, we feel this is justified.

Question:

The Department has more acronyms for ongoing or developing automated data processing programs than the Department has Deputy Assistant Secretaries -- if that's possible. Please provide a description of each automated data processing and telecommunications program; a funding profile for the current year and the outyears for each program; and a description of the relationship between these programs.

Answer:

(Dollars in Thousands)

Automated Data Processing programs within the Department include the following:

Foreign Affairs Information System (FAIS):

1987	1988	1989	1990	1991	1992
9,200	17,800	29,700	28,400	16,900	18,100

The FAIS is not a single information system, rather it is an integration of several automated technologies which will provide the Department with the resources to exchange, store and retrieve information in a world-wide office automation environment.

Specifically, FAIS will provide the following basic functions: increased access to the Department's automated Foreign Policy database; creation, clearance, and transmission of telegrams electronically through automated equipment; distribution of telegrams electronically from the communications center directly to domestic user offices; the provision for electronic

mail within the Department; and development of a sophisticated automated network, linking office automation equipment.

Financial Management System (FMS):

1987	1988	1989	1990	1991	1992
4,400	4,500	4,500	4,000	4,000	4,000

The FMS provides accurate and timely financial information needed to make management decisions. The current functions for the on-going implementation of FMS include: disbursements, reimbursements, accounting and budgeting support for posts and 8 major agencies overseas; continued development and installation of Financial Management Centers (FMCs); and the domestic requirements of State, United States Information Agency (USIA) and the Peace Corps. FMS will be capable of meeting the common accounting and budgeting information requirements through the Foreign Affairs Agencies' "Common Accounting System."

Foreign National (FN) Pay/Personnel System:

1987	1988	1989	1990	1991	1992
900	2,700	1,000	1,000	1,000	1,000

The FN Pay/Personnel System will support the personnel and payroll functions required for approximately 35,000 non-U.S. citizen employees of numerous agencies overseas. These agencies receive support from the State Department in approximately 140 countries.

The system will provide Departmental management with a data base containing information on all overseas Foreign Service National (FSN) and local personal services contract personnel. The FN Pay/Personnel System will involve microprocessors at the post level communicating with the RAMC IBM mainframes, which will in turn, input to the Department's central unclassified mainframe.

Personnel Systems:

1987	1988	1989	1990	1991	1992
1,100	1,100	1,100	1,100	1,100	1,100

The Department's automated personnel system consists of three major subsystems. The Table-Driven On-Line Foundation Software (TOFS) provides the capability for recording all transactions and updating information on the personnel master file. The Automated Personnel Transaction System (APTS) comprises the process for making Foreign Service assignments. The Personnel From Side System (PERFS), which is still under development, produces a Personnel Action (SF-52) using defaulted data from the master file to complete the form automatically.

Consular Lookout and Support System (CLASS):

1987	1988	1989	1990	1991	1992
800	800	600	400	400	400

CLASS is currently being developed as a sophisticated successor to the Automated Visa Lookout System (AVLOS). It is a worldwide system that will ultimately facilitate name-checking for passport and visa applicants and allow for data/message transmission between consular operational offices.

Travel Document Issuance System (TDIS):

1987	1988	1989	1990	1991	1992
1,200	1,200	1,200	1,200	1,200	1,200

TDIS was designed to improve the U.S. passport issuance system through automation; provide increased document security and facilitate replacement of obsolete equipment. The automation process utilizes computerized data bases, produces machine readable passports and compiles management information.

Beginning in 1986, a new TDIS configuration was developed employing microprocessor technology in lieu of central processing units. This technology will be introduced in subsequent installations and furnished in older automated agencies to enhance workload distribution monitoring and productivity.

Immigrant Visa Applicant Control System (IVACS):

1987	1988	1989	1990	1991	1992
874	889	900	900	900	900

IVACS provides case tracking for immigrant visa processing; automates immigrant visa case control file; facilitates applicant scheduling; prints visas; produces cover sheets for packets; and, compiles management information.

Non-Immigrant Visa/Computer Assisted Processing System (NIV/CAPS):

1987	1988	1989	1990	1991	1992
582	591	600	600	600	600

This system provides automated support to the non-immigrant visa process to accomplish applicant namecheck, generate records of non-immigrant visa applicants, and compile statistical and management reports.

INR Information Support System (INRISS):

1987	1988	1989	1990	1991	1992
1,700	3,400	3,400	3,400	3,400	3,400

The INRISS grew out of an August 1983 report by the Intelligence Community Staff to the House Permanent Select Committee on Intelligence regarding the status of INR's information handling capabilities.

INRISS will provide the Bureau with the ability to carry out its dual responsibilities of providing timely intelligence reporting and analysis to the Department's principals and representing the Department as a member of the Intelligence Community.

There are four basic on-going telecommunications programs, they are; terminal equipment replacement (TERP), classified information handling system (CIHS), and high speed (HS). The TERP is the communications terminal through which all the posts communications flow, the CIHS provides a classified information handling capability within a post, the high speed program provides the circuits for the TERPS at post, and the Department of State Telecommunications Network (DOSTN) is a new (FY-88) initiative which integrates the current communications activities into a more cost effective network.

Department of State Telecommunications Network (DOSTN):

1987	1988	1989	1990	1991	1992
--	5,000	43,000	44,000	17,000	9,000

The Department of State Telecommunications Network (DOSTN) program is an enhancement of the Department's commercially leased High-Speed circuit program initiated in FY 1982.

DOSTN is an integrated worldwide leased network to accommodate existing and emerging requirements for data, voice, and secure video conferencing well into the 21st Century. The DOSTN program is a five-year program beginning in FY 1988 with completion planned in FY 1992. Also, it is consistent with and satisfies those telecommunications responsibilities assigned to the Department by numerous National Security Directives and Executives Orders.

Terminal Equipment Replacement Program (TERP):

1987	1988	1989	1990	1991	1992
1,600	1,600	1,600	1,600	1,600	1,600

TERP is an automated terminal in the communications unit which rapidly processes in/out telegrams at a post. Offices must use paper telegram forms to prepare outgoing messages for introduction to the TERP's Optical Character Reader. Incoming telegrams are also distributed to offices in paper copy.

Classified Information Handling System (CIHS):

1987	1988	1989	1990	1991	1992
2,700	2,700	2,700	2,700	2,700	2,700

The classified information handling system, is a marriage of Tempest office automation equipment and a large data base to the TERP system. The CIHS system provides for a classified distributional capability between subscribers and also permits users to electronically retrieve information from the data base in the Post Communications Center.

High Speed Program (HS):

1987	1988	1989	1990	1991	1992
3,800	3,900	4,000	4,000	4,000	4,000

The high speed program is the ultimate enhancement to the terminal and office systems (paragraphs 1 and 2 above). It provides the capability for much higher data rates to the TERP. By incorporating multiplexer equipment a spin-off is devised whereby bandwidth in the high speed circuit can be allocated to other agencies represented at a Foreign Service establishment who have a need to tie into data bases in the United States. The Drug Enforcement Administration is an excellent example of an agency which reaps great benefit from the system.

There is a relationship between the Foreign Affairs Information System (FAIS) and the on-going telecommunications program - TERP, CIHS, and HS. These programs are the basic components for transmission and internal handling of classified information to and from our overseas posts. The HS program provides telecommunications lines by which data and information can be transmitted to and from posts. These lines must be at a sufficient capacity to ensure the integrity of the data. The TERP equipment is the "front-end" communications processor which receives the information at the post. The Classified user at an overseas post uses the CIHS equipment not only to perform classified word processing, but also to send and retrieve information from the TERP system. All of these components are being integrated, and in the future, enhanced under the FAIS program which is the Department's plan to link all domestic and overseas information handling systems into one integrated and secure network.

Questions Submitted by Senator Lautenberg

CUBAN IMMIGRATION POLICY

Overview

Since the time Castro seized power in Cuba in 1959, the process of regularizing immigration procedures between the United States and Cuba has been difficult and contentious. Throughout, the Castro regime has manipulated immigration to serve its own political agenda. Although Cuba relies on the immigration by dissatisfied Cubans as a means to reduce internal political and economic pressures, the Cuban Government has long attempted effectively to control who may immigrate to the United States.

The United States views migration with Cuba as an important matter of human rights, and is particularly interested in the reunification of divided families of U.S. citizens. Accordingly, the United States has always given high priority to the immigration of long-term political prisoners and immediate relatives of U.S. citizens.

The current chapter in U.S.-Cuban migration began in 1980 with the boatlift to the United States of over 100,000 Cuban nationals from the port of Mariel. This exodus reflected a calculated effort by Castro to manipulate natural human sentiments to violate our sovereignty and to extract concessions from the U.S. Among the people who arrived by unsafe and often inhumane means during the Mariel boatlift, the Cuban Government had placed several thousand people who had committed serious non-political crimes in Cuba or were suffering from serious mental disorders. Subsequently, the Cuban Government refused to abide by its international obligations to accept the return of these people.

As a longstanding matter of law and policy, the United States Government does not accept immigration from countries that refuse to accept the return of their citizens that are properly excludable from the United States. See, e.g., section 243(g) of the Immigration and Nationality Act, 8 U.S.C. Section 1253(g). In accord with this law and policy, processing of preference immigrant visas in Havana was suspended. Ultimately, such suspension motivated the Cuban Government to accept a comprehensive agreement on immigration, in which it agreed to the return of its excludables and to a normal, orderly process of immigration in accordance with U.S. law. In this December 14, 1985 agreement (hereinafter, the "Agreement"), the United States agreed to resume the issuance of preference immigrant visas in Havana. It was also possible to establish a refugee program for former Cuban political prisoners, with additional personnel assigned to the U.S. Interests Section in Havana to handle the increased workload.

This Agreement was a major achievement in terms of U.S. interests. Orderly, predictable immigration pursuant to our laws gives proper priority to those who wish to leave Cuba to join their relatives in freedom in the U.S. It also permits these immigrants to be received and integrated into our society with dignity and without disruption to local communities. We believe that restoration of such normal procedures, under which we select whom we will and will not receive pursuant to our immigration laws, is the only viable means to achieve the humanitarian ends we seek.

Cuba suspended implementation of the 1984 Agreement on May 20, 1985, in protest over the programming on the Voice of America mandated by U.S. law. Cuba has repeatedly stated that it wishes to see the implementation of the agreement restored but continues to seek to extract unacceptable political concessions in return. Our policy is to seek prompt and unconditional restoration of the agreement.

Question:

Secretary Shultz, I understand that we refuse to admit Cubans who have escaped to third countries like Panama or Venezuela into the United States as immigrants unless they are immediate relatives of U.S. citizens, or unless they arrived in these third countries before August 22, 1986, and fit into one of the other preference categories for immigration to this country. We also place the same restrictions on would be immigrants from Cuba, restricting immigration to immediate relatives of U.S. citizens.

I know that the State Department does not have primary responsibility in this area, but you do have a large say in our policy toward that country.

What is the purpose of such limitations on immigrant visas?

Answer:

On May 20, 1985, the Government of Cuba suspended implementation of all aspects of the December 14, 1984, U.S.-Cuba migration agreement. As noted in overview, under the Agreement, the United States had agreed to resume issuance of preference visas in Havana. On June 30, 1985, the United States suspended its implementation thereunder and, in accord with the clear intent of Congress in the Immigration and Nationality Act, suspended issuance of preference immigrant visas in the U.S. Interests Section in Cuba.

Subsequently, the United States Government learned that the Cuban Government was attempting to subvert United States policy and to obtain the benefits of the Agreement without carrying out its obligations thereunder by encouraging immigration to the United States through third countries. To make matters worse, there was convincing evidence that the Cuban Government was facilitating such travel in exchange for the payment of large sums of convertible currency, some of which was paid as bribes to foreign officials. To discourage these Cuban abuses, the President by Proclamation 5517 of August 22, 1986, ordered the suspension of the entry of Cuban nationals into the United States as immigrants unless they were immediate relatives of United States citizens or had been residing outside Cuba by that date.

Question:

How long has this policy of limiting immigrant visas for Cubans been in effect?

Answer:

In 1980 the Government of Cuba, exploiting the fact that thousands of its nationals wished to leave Cuba, sent several thousand persons to the United States who had committed serious

nonpolitical crimes or suffered from severe mental disorders and, thus, were ineligible to remain in the United States. The Government of Cuba also unleashed a mob which drove several hundred persons for shelter in the U.S. Interests Section in Havana, disrupting its normal operations. Issuance of immigrant visas for all except immediate relatives of U.S. citizens was therefore suspended. In December of 1980, and of January 1981, negotiations were conducted to persuade Cuba to take back these persons with histories of criminal activity or mental disorder but Cuba refused to accept back these persons. Processing of preference immigrant visas, therefore, remained suspended until Cuba, on December 15, 1984, agreed to accept back these persons. As noted above, Cuba without proper justification suspended implementation of the Agreement on May 20, 1985. Accordingly, the United States suspended implementation thereunder and resumed restrictions on the issuance of immigrant visas.

Question:

How many Mariels has Castro taken back during the time it has been in effect?

Answer:

Except for the period December 14, 1984 to May 20, 1985, when the bilateral migration agreement was in force, Cuba has refused to take back any of the persons whom the United States has found to be excludable. In the period when the Agreement was being implemented, 201 excludable aliens were returned to Cuba.

Question:

Judging from these results, do you think this is an effective policy?

Answer:

Yes. U.S. policy succeeded in bringing about the 1984 migration agreement with Cuba. The United States has publicly and repeatedly stated that we think the agreement is fair and should be restored. Although the Cubans have publicly stated their view that the agreement is fair, they have placed extraneous issues in the way of its implementation. We expect that the Cuban Government will realize that we will not allow them to use immigration as a basis for extracting political concessions in unrelated matters. Indeed, normal migration procedures as established in the Agreement are in both countries' long term interests. Other issues should be dealt with on their own merits and not linked to immigration.

Question:

Is it fair for the United States to in effect hold hostage the Cuban brothers and sisters of American citizens, and the Cuban adult children of such citizens because Castro refuses to take back the Mariels?

Answer:

This question mischaracterizes United States policy. As indicated above, the purpose of our policy is to establish

orderly, safe, and humane migration, giving proper priority to those immigrants who are most entitled under U.S. law. While holding the Cuban Government to its international obligations to accept the return of excludables is one aspect of this policy, the overall purpose of that policy is humanitarian.

Question:

Would you support legislation to require that the Government issue immigrant visas to Cubans who have managed to escape to third countries, without regard to whether Castro takes back the Mariels, and if not, why not?

Answer:

The United States has accepted on an exceptional basis those persons who have genuinely escaped from Cuba, such as those who cross the Florida Strait in small boats. In contrast, the Cubans who have gone to third countries in order to enter the United States have not "escaped" from Cuba, but have been permitted to depart by the Government of Cuba, often upon consideration of the payment of large amounts of convertible currency, in defiance of the laws of the United States. The Government of the United States, far from wishing to reward such cynical Cuban Government activity trading on human misery, decided to discourage it by Presidential Proclamation 5517 of August 22, 1986.

Question:

The State Department has input into this decision, does it not? What has the State Department's input to the INS been on this issue?

Answer:

The policy views being transmitted represent the position of the Government of the United States.

Question:

Last year, I authored report language to the continuing appropriations bill for FY 1987, now P.L. 99-591, which stated explicitly that it should be the U.S. policy to do everything possible to secure freedom for Cuba's current and former political prisoners regardless of the disposition of other issues, including whether or not Castro takes back the Mariels.

Is this country doing everything we can to process these former and current political prisoners to come to the U.S., including those imprisoned under 10 years, or are we still dragging our feet on this because Castro will not take back the Mariels?

Answer:

The bilateral migration agreement of December 14, 1984, included provision for a refugee program in the U.S. Interests Section in Havana to facilitate the transfer to the United States of former political prisoners and their families. This program was also suspended by the Government of Cuba on May 20, 1985. Several days thereafter that government refused to permit the United States to transport to the United States a substantial number of former prisoners and families who had

been processed for admission to the United States. The Government of Cuba also required the United States Government to recall the supplementary personnel from the United States Interests Section who had been assigned there in accordance with the terms of the migration agreement in excess of the official limitation on the size of the Interests Section to 20 persons.

Despite this action by Cuba, the U.S. Interests Section has processed current and former political prisoners and their families. 124 persons entered the United States as refugees or under humanitarian parole in FY 1986. In addition, 20 former prisoners and 27 family members have entered the United States from Cuba in FY 1987 under terms set by the Government of Cuba, whereby no more than two former prisoners may leave Cuba each week. The U.S. Interests Section and the Immigration and Naturalization Service in 1986 also fully processed 61 other former prisoners and 111 family members for admission to the United States. None of these persons has been granted an exit permit by the Government of Cuba, but the Government of the United States has continued to press Cuban authorities to provide the necessary documentation for their prompt departure from Cuba. Since there is a large number of persons in Cuba who have served ten or more years in prison on political grounds, we are according those persons precedence in processing.

Question:

How many former and current Cuban political prisoners have we processed since the breakdown of the Mariel migration agreement?

Answer:

We have processed for entry into the United States approximately 330 former and current Cuban political prisoners and families. Of these individuals, 67 prisoners and 44 family members arrived in the United States on September 15, 1986. An additional 20 former prisoners and 27 family members were approved in December 1986 for entry into the United States and have now entered the country. The balance of the former prisoners processed, 61 and their 111 family members, were approved for admission into the United States in December 1986 but have not received Cuban exit permission.

Question:

How many people do we have working on this processing at our Interests Section in Havana?

Answer:

There are three consular officers to handle all consular work. One officer works on political prisoner processing.

Question:

If we had more consular officers in Havana, could we process more former and current political prisoners? How long would it take to process all the Cubans who might be eligible to come to this country?

Answer:

Additional consular offices could process additional political prisoners. There could be up to 30,000 former prisoners and family members in Cuba. There could be up to 15,000 present political prisoners in Cuba, plus family members. As time passes, there will be more persons arrested on political grounds. It is not possible to state how long it would take to process all political prisoners in Cuba. It is also unknown whether Cuba would give such persons exit permits or whether they would be permitted to depart Cuba at a rate faster than two per week, as has been the case in 1987.

Question:

How many more consular offices would it take to make our best efforts to process these Cubans as quickly as possible?

Answer:

At present one consular officer is sufficient, given Cuban restrictions on exit.

Question:

Has any request been made to send more consular officers to Havana?

Answer:

No. As indicated, there is a limit of 20 officials in the U.S. Interests Section in Havana, as in the Cuban Interests Section in Washington. Under terms of the migration agreement, we were able to increase our staff by ten to accommodate the anticipated workload, but Cuba informed the United States after May 20, 1985, that we would have to remove the additional personnel. We would not permit an increase in the Cuban Interests Section in Washington, and we do not believe Cuba would permit a unilateral increase of U.S. personnel in Havana, absent restoration of the agreement. As indicated, the backlog of processed former political prisoners in Cuba is due to the policy of the Cuban Government and would not be affected by our sending additional personnel to Cuba.

At present, the Cuban Government is applying heavy pressure on our Interests Section in Havana which makes it difficult to maintain even our present staff. Since December 1986 Cuba, in violation of its obligations, has declined to allow the Interests Section any support flights from the United States as it had continuously permitted since 1977. It has also improperly limited the size of the diplomatic pouch. As a result we have been able to provide the Interests Section with less than 20 percent of the supplies that it requires to subsist. It is obvious that no consideration could be given to increasing the size of the Interests Section in these circumstances.

The best feasible solution to the problem of political prisoners in Cuba, a problem which arises because of the nature of the system there, would be restoration of the 1984 migration agreement which would permit an expanded Interests Section to handle 3,000 or more political prisoners and family members annually while processing up to 20,000 preference visas annually. Restoration of the agreement depends upon Cuba delinking immigration from other issues.

Question:

How many Cuban former and current political prisoners have made their desires to come to this country known to us at the Interests Section?

Answer:

We have registered at the Interests Section approximately 2900 former and current political prisoners and their 2200 accompanying family members. Of these individuals, 380 of the current or former prisoners have served ten or more year sentences.

ARMS SALES TO THE MIDDLE EAST

Question:

Other than what you have already notified Congress of in 1987, what other weapons or military equipment do you plan to sell to Saudi Arabia, Jordan, and other countries in the Middle East this year?

Answer:

The President sent to Congress February 17 the annual "Javits Report" required under Section 25 (a) (1) of the Arms Export Control Act. The report provides Congress with a broad listing of arms sales under discussion which may be eligible for approval during the calendar year. It should be pointed out, however, that some items in the report may never result in a sale. On the other hand, the Administration may notify Congress on other weapons sales that did not appear on the Javits Report. We would do this in those exceptional cases, for example, where the changing threat environment or political exigencies made it necessary to consider arms transfers not anticipated earlier. The Persian Gulf would be an example of a volatile region where we must be responsive to the security needs of the Gulf states in the event of increased threats and expansion of the Iran-Iraq war.

Question:

What weapons and equipment are the Saudis and Jordanians requesting in addition to what the administration has already sent to congress?

Answer:

Again, all sales under consideration for Saudi Arabia and Jordan in 1987 are included in the Javits Report. The Administration will soon provide informal notification for one additional item, not required to be included on the Javits Report. We intend to renew a longstanding contract between the U.S. Army Corps of Engineers and the Saudi Ordnance Corps. Because this periodic contract renewal exceeds the notification threshold, it requires renotification to Congress. This contract will allow the Engineers to continue providing logistics planning assistance, sponsor technical orientation visits to the United States, and supervise technical and financial service contracts and procurement until July 1989.

Question:

Does the U.S. intend to sell the Jordanians any equipment to mobilize the I-Hawks? If so, does the Administration plan

to request additional Foreign Military Sales credits to finance such sales?

Answer:

This is not a current issue, either in terms of the sale of additional equipment or dispersal of existing systems in Jordan. As you know, when we first agreed to provide Hawks to Jordan in 1975, President Ford advised Congress, as part of the approval process, that the United States would sell Hawk under the condition that the systems be "permanently installed" at locations "as fixed, defensive and non-mobile anti-aircraft weapons" in northern and central Jordan. Over the past decade, these fixed sites have become well known and vulnerable to Syrian air or artillery strikes. The Jordanians are apprehensive about the continuing effectiveness of their air defense against a Syrian foe with its modernized Soviet arsenals. Frankly, we share Jordan's concern but have made no decision on I-Hawk dispersal. Nor have the Jordanians submitted a formal request for dispersal of the systems. If and when we are prepared to make a decision, we would certainly consult with the Congress on the question.

Question:

How do the arms sales already proposed this year for Saudi Arabia and Jordan further our current foreign policy objectives in the Middle East?

Answer:

Because we have sought to maintain close ties to both Israel and the Arab states, we are the only superpower trusted by both. By establishing friendship and confidence on both sides, we have made it possible to move Arabs and Israelis toward greater peace and security. Our close military ties with Saudi Arabia and Jordan, for example, have been a key factor in guaranteeing that our friends have the means to protect their own security.

Jordan will continue to play a key role in the search for a negotiated settlement to the Arab-Israeli conflict. King Hussein has publicly recognized Israel's right to exist, has sought scrupulously to maintain the security of Jordan's border with Israel, and has repeatedly undertaken courageous initiatives towards a negotiated settlement. Yet, Jordan's ability to be an active participant in the peace process is partly a function of its ability to meet its basic economic and defense needs. Our assistance to Jordan provides both tangible and psychological support against radicalism that, if unchecked, could undermine years of U.S. effort to bring Arab states and Israel to the negotiating table.

In the case of Saudi Arabia and the other Gulf states, our assistance contributes to their individual and collective self defense. By providing weapons systems which meet legitimate defensive needs, we enable these countries to face threats posed by the Iran-Iraq war and Iranian extremism; guard against Soviet inroads; cooperate with the US in ensuring free international access to oil supplies; and reduce the likelihood of U.S. military personnel becoming involved in a conflict in the region. Our aid to moderate Arab states fosters the kind of trust needed to move toward peace while it promotes stability in the region. I believe the modest arms transfers we have proposed for sale in the region are supportive of valid regional security requirements, as well as U.S. long-term interests.

Question:

What has changed in the Middle East, or more specifically in Saudi Arabia and Jordan, that leads the Administration to pursue these sales at this time? Are we trying to repair the damage done by our recent sale of arms to Iran?

Answer:

Jordan continues to play a key role in the search for a negotiated settlement to the Arab-Israeli conflict. King Hussein has publicly recognized Israel's right to exist, has sought scrupulously to maintain the security of Jordan's border with Israel, and has repeatedly undertaken courageous initiatives towards a negotiated settlement. Yet, Jordan's ability to be an active participant in the peace process is partly a function of its ability to meet its basic economic and defense needs. Our assistance to Jordan provides both tangible and psychological support against radicalism that, if unchecked, could undermine years of U.S. effort to bring Arab states and Israel to the negotiating table.

One of the many dangers inherent in the Iran/Iraq war is its possible spread to non-belligerent regional states. This is a real threat to some of our traditional friends in the Gulf, including Saudi Arabia. U.S. relations with the non-belligerent countries of the Gulf are deep and important to longterm U.S. security interests. These countries believe that the war directly threatens their stability--as well as the trade and commerce on which their economies are based. Thus we support their self-defense efforts, including appropriate arms sales. Another major danger in the war is the widening scope of attacks on neutral shipping in the Gulf. In addition, the Iranian activation of Chinese-origin Silkworm missiles in and near the Strait of Hormuz is very worrisome.

Question:

Secretary Shultz, are we substituting the sale of weapons for a clear U.S. policy in the Middle East?

Answer:

The reasons for continuing our arms supply links with moderate Arab states are compelling and numerous. The United States provides arms to our friends based on their defensive requirements and because it is in the best interest of the United States. I am concerned by a seeming lack of understanding of the importance of our military programs -- including training, assistance, U.S. personnel, and sales of major equipment -- in the region. There is not enough understanding of the strategic importance of such sales to the United States. Our close military ties with Saudi Arabia and other Gulf states, for example, have been a key factor in guaranteeing that our friends have the means to protect their own security, containing threats posed by the Iran-Iraq war and Iranian extremism, guarding against Soviet inroads, and cooperating with the U.S. in ensuring free international access to oil supplies.

Security assistance, arms and technology transfers have been important instruments in constructing bridges to both parties of the Arab-Israeli dispute. We all take pride in the economic and military assistance we have provided to Israel over the years. At the same time, we must not forget the great value of the support we have given to the Arab states over the years. For thirty years Arab states friendly to the United States have turned chiefly to us -- to the near exclusion of

the Soviet Union -- as a source of technology and equipment to defend themselves against attack. This is in Israel's interest since it enables us to control acquisition to a greater degree and prevent introduction into the region of systems that would increase the security threat to Israel or otherwise destabilize the region. Moreover, Israel not only retains but is increasing its qualitative military edge over any combination of Arab forces. We are committed to the maintenance of the Israeli advantage, and ensure it is kept by carefully reviewing all arms transfers to the region and obtaining appropriate safeguards whenever required.

U.S. interests in the region are best served by continued strong, open and credible relations with moderate Arabs. Our security relationship with Saudi Arabia serves as a good example. Our reasons for supporting this important friend are simple and cannot be overemphasized. Maintenance of our longstanding arms supply relationship with Saudi Arabia strengthens defense of the Gulf, an area vital to U.S. interests. I would remind you that two administrations have pledged to use force, if necessary, to protect the free flow of Persian Gulf oil. We still stand by that policy. The Saudis have taken the lead, with other Gulf Cooperation Council states, in protecting the shipping and oil installations of the upper Gulf. It is important that we not lose sight of the fact that Saudi self-defense reduces the probability of direct U.S. military involvement to defend our interests. Further, our support for Saudi self-defense has been an important element of deterrence -- Iran has clearly had to take into account the fact that the Saudis have significant U.S. backing. If that perception is called into doubt, if it appears empty rhetoric, the costs to the United States could be substantial.

If the United States will not continue this carefully calibrated arms supply relationship, Arab states like Jordan and Saudi Arabia will seek other sources of arms. Whenever our friends seek alternative sources there are costs: security costs for Israel, and political, strategic, and financial costs to the U.S. The recent Saudi purchase of long-range Tornado fighter aircraft, which we believe has not served any discernable U.S. interest, is a good example. Unlike the F-15s, an air defense aircraft we supplied to the Kingdom in 1979, there are no restrictive understandings on basing the Tornados close to Israel's borders. Additionally, some independent academics estimate that the Saudi purchase of Tornados, a ground attack aircraft, rather than the additional F-15s they preferred, cost the American economy from $12 to $20 billion dollars.

Question:

What dangers do ECM's on Saudi F-15's, or depleted uranium shell ammunition for the Saudis, or mobile I-Hawks for Jordan pose for Israel?

Answer:

The AN/ALQ-171 ECM equipment does not represent a new capability for Saudi Arabia. Forty five of the sixty total F-15s in the Saudi force already have an ECM capability equivalent to that of the AN/ALQ 171. The additional ECM pods would be for the 15 two-seater F-15s which did not come with the capability originally. The AN/ALQ-171 is primarily designed for defense of the aircraft against ground-based, radar controlled anti-aircraft artillery and surface-to-air missiles. This equipment does not pose a threat to Israel.

With regard to the sale of M833, depleted uranium anti-tank ammunition, I want to assure you that we have carefully considered the effect of these sales on the Arab/Israeli military balance and that these sales will not introduce a new level of technology into the region. We believe these sales are justified by the threats they face and the fact that the ammunition is to be used in conjunction with U.S. provided tanks. When we sell a weapon system to a foreign country, we must be able to provide the necessary spares, support equipment and ammunition essential to its operation. Prior to making the sale of this round, we reviewed carefully all technology transfer issues. To limit our foreign sales to the M735 tungsten rounds (which are approaching obsolescence) would deny full capability to counter the Soviet-made T-72 and T-80 tanks in the region, and encourage our friends to seek an equivalent ammunition from European producers who would welcome the sales.

The Jordanians are apprehensive about the continuing effectiveness of their air defense against a Syrian foe with its modernized Soviet arsenals. Frankly, we share Jordan's concern but have made no decision on I-Hawk dispersal. Nor have the Jordanians submitted a formal request for dispersal of the systems.

Question:

Isn't it true that we have never sold the depleted uranium shells to our NATO Allies? (Depleted uranium can be made into enriched uranium) Are you concerned that the depleted uranium could be enriched into nuclear-weapons quality, and could fall into the hands of terrorists or radical Arab states in the volatile Middle East?

Answer:

The M833 round is the only kinetic energy round presently being produced in the US for 105mm tank guns. When we sell a weapon system to a foreign country, we must be able to provide the necessary spares, support equipment and ammunition essential to its operation. The decision to produce tank ammunition with the depleted uranium (DU) penetrator was based on its better performance against armored targets and production at less cost than the tungsten round. We are replacing the older M735 tungsten penetrator rounds with the M833.

Since our adoption of the DU penetrator, improvements in tungsten penetrator hardening have occurred which enable current tungsten rounds (all foreign-produced) to approach the performance of the DU round. For this reason, NATO countries and Israel, which manufacture their own tungsten round, have not felt it necessary to purchase DU tank rounds from the US. DU remains the least costly production, and therefore the U.S. Army choice.

The penetrators are made from depleted uranium, which is not usable for nuclear weapons purposes. There would therefore be no incentive for a country or sub-national group seeking nuclear weapons to attempt to divert these penetrators. Enrichment of depleted uranium to weapons-grade is not a realistic possibility, even if a country possessed the technical sophistication to build a uranium enrichment plant. Depleted uranium is in fact the waste material from our own uranium enrichment facilities, and has already been depleted of the fissionable uranium-235 isotope used in nuclear weapons or other nuclear energy applications.

Question:

Why are we sending it to an area like the Middle East -- Saudi Arabia, Jordan and Egypt at this time?

Answer:

As noted before, when we sell a foreign country a U.S. origin weapons system, we must be able to provide the necessary spares, support equipment and ammunition essential to its operation. It is not appropriate to insist that supporting material be purchased from foreign sources. To limit sales to the M735 tungsten rounds, which are approaching obsolescence, would deny full capability to counter the Soviet-made T-72 and T-80 tanks in the region and encourage our friends to seek an equivalent ammunition from European producers who would welcome the sales.

QUESTIONS ON TERRORISM BILL

Question:

Secretary Shultz, the State Department keeps a list of countries that provide state support for terrorism pursuant to the requirements of the Export Administration Act.

How do you decide what countries to put on the list, and on what basis?

Answer:

There is not a "list" per se. For the purposes of implementing the Export Administration Act (EEA) of 1979, we have designated countries that the Secretary of State determines have repeatedly provided support for international terrorism. In making the determinations, a number of factors are taken into account. They include, but are not limited to: Supplying terrorists with funding, weapons, logistics support such as transportation, passports or other documentation, safe houses, training facilities, headquarters facilities, and sanctuary from prosecution, as well as evidence of inspiring or participating in specific operations mounted by state-sponsored groups.

It should be noted that confirmed intelligence information is not always obtainable on whether a country has been repeatedly providing support for acts of terrorism. Moreover, key pieces of intelligence may not be publishable without harm to services, third party relations, or victims. But we make use of the intelligence community's best assessments in trying to determine whether or not a country should be on the list.

Question:

What does a country need to do in order to get taken off the list?

Answer:

It should cease its pattern of support for terrorists by, for example, halting its actions in support of terrorist acts. It should take actions which show that it is significantly breaking its pattern of sponsorship for terrorist incidents or support of terrorist groups. We seek

concrete, verifiable evidence of a significant change in conduct by a state vis-a-vis the groups or actions of concern to us. Public or private statements that a state intends to stop supporting terrorism will not be sufficient. A complete withdrawal of the state from involvement in terrorism is the goal.

Question:

What happens to a country when it is placed on the list?

Answer:

Once a country is designated under Section 6 (j), under the terms of the EAA, Congress must be notified at least 30 days before export licenses are issued for goods or technology valued at more than $1 million which would make a significant contribution to the country's military potential or enhance the ability of such a country to support acts of terrorism.

Section 6 (j) does not mandate specific controls on exports to terrorist supporting countries, other than notification to Congress before licenses are issued. Once the Secretary of State has determined that a country has repeatedly provided support for acts of international terrorism under section 6 (j) of the EAA, the authority to control exports is provided by section 6 (a). That section authorizes the President to impose controls "to the extent necessary to further significantly the foreign policy of the United States or to fulfill its declared international obligations." The Commerce and State Departments agree on which foreign policy controls are appropriate for each country designated as terrorist supporters.

The determination of which exports are to be controlled is made under the standard of what would significantly contribute to the country's military potential or enhance the ability of the country to support acts of international terrorism. In addition, all the mandated requirements of the EAA are followed, e.g., foreign availability determination and prior consultations. As with any controls under the EAA, exports pursuant to contracts that pre-date the formal report to Congress of the intent to impose the control cannot be blocked unless the President makes a special finding and determination as specified in the EAA.

Controls are renewed annually, in accordance with the EAA. The annual report to Congress on foreign policy controls, which is part of the renewal process, notifies the Congress of which countries are designated as having repeatedly provided support for acts of international terrorism. The report also cites the categories of equipment which the Secretary of State has determined would "make a significant contribution to the military potential of such country, including its military logistics capability, or would enhance the ability of such country to support acts of international terrorism." Examples of controlled items include most aircraft and helicopters. The latest report was submitted to Congress on January 20, 1987. The list and regulations may be amended at any time in the year.

As a result of the Omnibus Diplomatic Security and Anti-terrorism Act of 1986, exports of items on the Munitions Control list are banned to countries cited under Sec. 6 (j) of the Export Administration Act unless the

President reports to Congress that a waiver is important for national security interests. In addition, under section 901 of the Omnibus Budget Reconciliation Act of 1986, Congress disallowed any foreign tax credit for income earned in, inter alia, any country designated as terrorist supporting under Section 6 (j) of the EEA.

The fact that a country has been designated as supporting terrorism is made public. The publicity can be useful in trying to point the public spotlight on that country. The finding also becomes a factor in future dealings with that government and in discussions with friendly governments regarding that country.

Question:

What is the purpose of keeping the list?

Answer:

The original intent behind Section 6 (j) was to provide an additional tool to put pressure on countries supporting terrorism as part of the effort to get them to end their support. One approach was to assure closer scrutiny of sales of equipment or services which might help a country's military capability or means to support terrorists. At that time the amendment, by Representative Millicent Fenwick of New Jersey, was considered in 1979, it was felt there was a loophole in existing regulations because items not on the munitions control list, such as heavy duty trucks capable of transporting tanks or civilian versions of military transport planes could be licensed for export without high level scrutiny in the Executive Branch. The amendment provided a way of assuring that foreign policy/security as well as commercial implications of the proposed sale would be taken into account by the Executive Branch and that Congress would have an opportunity to make known in advance its views on such proposed sales. The amendment is not a flat prohibition on licenses, but the advance notification mechanism was intended to provide flexibility in dealing with major proposed sales on a case-by-case basis.

It should be noted that the Fenwick amendment and the subsequent designation of countries under Section 6 (j) was not originally intended to be all inclusive, covering all nations which might be supporting terrorism indirectly or directly in one way or another. Rather, it was designed to provide a way of scrutinizing exports of dual use items to countries which have repeatedly provided support for acts of terrorism but to which exports of such items were not already controlled, such as proscribed countries of the Eastern Bloc.

The official designation of a country as one supporting terrorism, what popularly has become known as a "list," also has become useful in public condemnation of terrorism and state-support of terrorism.

Question:

What consideration is given to imposing economic sanctions or taking military action against a country when it is placed on the list?

Answer:

Designating a country as a supporter of terrorism is only one major step in the effort to break a pattern of support for terrorism. Other measures such as indirect pressure, diplomatic, economic, and even military are considered and may be necessary when the country is initially placed on the list or at some point afterwards in accordance with the circumstances. The exact nature or mix of options are guided by our best evaluation of which steps and options might be most effective in encouraging that country to cease its support for acts of terrorism. The mixture can vary from country to country, depending on the situation.

Question:

Who has the primary responsibility for making these decisions?

Answer:

Under Section 6 (j) the Secretary of State makes the determination of which countries have repeatedly supported acts of international terrorism. Under Section 6 (a) the authority to impose Foreign Policy controls, including controls against terrorism-supporting countries, is exercised by the Secretary of Commerce in consultation with the Secretary of State. The final decision on major actions such as a military response would be made by the President in accordance with U.S. law.

Question:

Secretary Shultz, I understand that Syria has been on the terrorist list since 1979, meaning that it was the best judgement of our intelligence and foreign policy establishment that Syria demonstrated a pattern of state support and sponsorship of terrorism.

If that is so, why did we wait until 1983 to cut off foreign assistance to Syria, until 1986 to end the availability of export-import bank loans, and even today, have no policy of voting against world bank loans to Syria, which received $75 million last year from the Bank? Was this an oversight or a deliberate policy?

Answer:

Since Syria was listed in 1979 as a state repeatedly providing support for acts of international terrorism, no additional foreign assistance for Syria has been appropriated. Only funds appropriated prior to 1979 and already procedurally in the pipeline or intended for students finishing up their studies in the U.S. were expended. There were numerous consultations with Congress on this. In 1983 Congress voted to end our AID program in Syria. As a result, our USAID mission in Damascus was closed that year and no further pipeline resources expended. The US abstained on human rights grounds in the $70 million World Bank loan vote for Syria last year and has abstained on three bank loans for Syria since 1982. The use of absention in the multilateral banks is in accordance with our view that in general an automatic "no" vote approach in these bodies, in which we do not have a deciding vote, hinders rather than helps our ability to try to exert

influence on other countries involved in considering loan proposals.

The precise mix and timing of various measures taken against countries supporting terrorism is a matter for careful decision which takes into account a number of considerations, including evidence of any changes in the level and nature of support, as well as the potential utility of reserving certain measures as part of a longer range strategy of discouraging support for terrorism. Another consideration in the timing of actions related to economic assistance is that we want to get the attention of the leadership of the country involved, for instance to get the Syrian government to stop supporting terrorism, but we do not have a quarrel with the people themselves.

Question:

Would you have supported ending foreign aid, Export-Import Bank loans, and voting no on World Bank loans as soon as Syria went on the Terrorist List? Why or why not?

Answer:

Not necessarily. As stated above, new foreign aid funds to Syria ended in 1979 when it was designated as a terrorist-supporting country. Our sanctions against Syria since 1979 have been taken on a selective basis reflecting what was thought to be most effective at the time to accomplish a specific purpose. For example, our economic sanctions of last November were calculated to make it clear to the Syrian government that we strongly disapproved of its support for Hindawi's planned bombing of an El Al passenger airliner at Heathrow airport, to respond to the results of the Hindawi trial in London, and to back up the sanctions taken by the UK at that time. Our November sanctions included termination of the availability of the Export-Import Bank program to Syria.

It needs to be kept in mind that in dealing with a country such as Syria with which we have relatively little trade or other relations, there are only a limited number economic options which might have an impact. In designing our responses to states supporting terrorism, our objective is to develop a mix of measures which have the best chance of obtaining our objective: ending future state support for terrorism operations. Using every conceivable sanction at the beginning of the process could well be counter-productive and leave few options if there is a need to increase the pressure at a later date.

Question:

Would you support a mechanism to require the Executive Branch to consider imposing specific sanctions once they are placed on the terrorist list? If not, why not?

Answer:

We do not think it is necessary or a good policy approach. We are familiar with the existing range of options and legislative authorities and consider them as appropriate. The key objective is to deter the country from supporting terrorism. We do this by looking for what will

get a government's attention, steps which we can take and still keep that government listening. The situations, including economic and political pressure points of each country will vary considerably. Thus, the best mix of sanctions to employ may vary from country to country and even from time to time with the specific country. In some situations, our analysis may lead to the judgement that we may want to tighten the pressures selectively, rather than utilize all the potential sanctions at once, leaving nothing for future responses. Given the complexity of the unique and often rapidly changing circumstances of each case and the sensitivity and importance for the terrorism issue, there is a need for flexibility in the use of anti-measures under applicable U.S. laws.

Question:

How can we make sure that we do not provide foreign aid and loans to countries on the terrorist list if there is not a specific mechanism for review of such benefits when a country goes on the list?

Answer:

There already are existing mechanisms for review. When consideration is being given to designating a country as a supporter of terrorism, the whole range of relationships including foreign assistance is reviewed. The primary mechanism is an interagency working group consisting of representatives of the relevant bureaus and offices within the Executive Branch and the State Department, such as the regional bureaus, the Office of the Ambassador at Large for Counter-Terrorism, and the Economic Bureau. The same type of working group would also review economic and other options if there were cause to consider additional steps, as was the case with Syria last Autumn. Additionally, in the field, the Ambassador and his country team, including A.I.D. officials, would have to first review any aid request fromthe country involved.

There also is a mechanism for considering proposed loans by multilateral banking institutions in which the U.S. participates, namely interagency working groups. The State Department is represented on these groups which would take into account such considerations as human rights and terrorism concerns.

We are always alert to the necessity for as close coordination as possible and the Interagency Working Group (I/GT) on Counter-Terrorism, which is chaired by the Ambassador at Large for Counter-Terrorism, is reviewing the current procedures to see if any changes are needed.

SECRETARY OF STATE'S ADVISORY COMMITTEE ON SOUTH AFRICA

Question:

Mr. Secretary, what evidence is there that the President has accepted the conclusions of your Advisory Committee on South Africa's report, and is prepared to or has already begun to act on its recommendations? Can you be specific?

Answer:

The report of my Advisory Committee on South Africa contains many concrete, constructive suggestions, many of which

have already been incorporated into U.S. policy. We of course agree completely with the Committee's main conclusion, that apartheid should and does repel Americans. We have, as I mentioned, already adopted many of the Committee's suggestions. For example, our diplomacy is actively directed at facilitating the opening of negotiations between the South African Government and leaders of the disenfranchised majority which would lead to a nonracial democratic political system. Ambassador Perkins in South Africa is in contact with all significant sections of the body politic as part of this process, and I and other senior officials continue to pursue the same objective in our meetings with South Africans visiting the United States.

Question:

Do you expect any action on the recommendation that the President begin urgent consultations with our allies to enlist their support for a multilateral program of sanctions drawn from the list of measures included in the sanctions bill passed by Congress last year?

Answer:

As you know, we submitted to the Congress on April 2 the report mandated in Section 401 of the Comprehensive Anti-Apartheid Act of 1986. This report is a description of U.S. efforts to negotiate multilateral measures to bring about the complete dismantling of apartheid. In regard to your specific question, I note that the U.S. joined the United Kingdom and the Federal Republic of Germany in voting against mandatory international sanctions against South Africa in the U.N. Security Council. We believe that sanctions are properly a sovereign responsibility and that decisions as to whether to impose them should be made by each nation according to its own experience and estimate of what actions will be effective. We continue to believe that it would be a mistake to agree to the imposition of mandatory multilateral sanctions by the U.N. Security Council. This would give any of the Permanent Members of the Council -- including the USSR -- unacceptable influence over U.S. policy toward South Africa in the event that circumstances were to change in South Africa. Such a step would contradict longstanding U.S. practice and would deprive us of the diplomatic flexibility necessary to deal effectively with a rapidly evolving situation in South and southern Africa. For our part, the Administration continues to maintain its skepticism about the efficacy of mandatory punitive sanctions in bringing about peaceful change in South Africa. The results of our own sanctions to date do not provide grounds for encouragement on this score. We believe that there is a consensus among all of the Western allies that apartheid is a degrading and inhuman system which must be abolished. It is up to each country concerned with this issue to determine its own way of registering this view with the South African Government.

Policy on the PLO

Question:

Sec. Shultz, do you consider the PLO to be a terrorist organization, or do you view it to be an umbrella organization, only parts of which foster terrorism.

Answer:

-- The PLO is an organization of organizations; an umbrella organization for member organizations.

-- There is no question that some of the groups which make up the Palestine Liberation Organization have engaged in terrorism and continue to do so. However, attaching a label to the PLO is not the real issue. What is important, is the approach the U.S. takes toward the PLO and toward terrorism. In both areas, the policy of the Administration is clear.

-- We oppose terrorism and we are working with like-minded governments to ensure that those who engage in terrorism or support of terrorism do not profit from such activity.

-- Our policy toward the PLO remains that the United States "will not recognize or negotiate with the PLO so long as the Palestine Liberation Organization does not recognize Israel's right to exist and does not accept Security Council Resolutions 242 and 338."

Question:

Within this framework, how does the United States view Al-Fatah and Yasser Arafat?

Answer:

-- As is the case with other member organizations of the PLO, we have never formally characterized Fatah as being either "terrorist" or "non-terrorist".

-- In the past, Fatah has, in fact, claimed responsibility for terrorist acts. As you know, Arafat is the head of Fatah.

-- Like members of other PLO organizations, Fatah members are "inadmissible" to the U.S., under Section 212 (a)(28)(F) of the Immigration and Nationality Act.

Question:

If you view it as an umbrella organization, which groups and individuals within the PLO may be considered as being non-terrorist? What are the criteria upon which you base these decisions? Is it behavior, rhetoric, or both?

Answer:

-- In 1974, "members" of or persons "affiliated" with the PLO (not otherwise defined) were declared "inadmissable" to this country by the Immigration and Naturalization Service of the Department of Justice. That decision was based on Section 212 (a)(28)(F) of the Immigration and Nationality Act.

-- This section of the Act provides the U.S. Government grounds to exclude "Aliens who advocate or teach or who are members of or affiliated with any organization that advocates or teaches (i) the overthrow by force, violence, or other unconstitutional means of the Government of the United States or of all forms of law; or (ii) the duty, necessity, or propriety of the unlawful assaulting or killing of any officer or officers (either of specific individuals or of officers generally) of the Government of the United States or of any other organized government, because of his or their official character; or (iii) the unlawful damage, injury, or destruction of property; or (iv) sabotage".

-- No provision in the law requires us to formally characterize an organization as being either "terrorist" or "non-terrorist". Accordingly, we have not had occasion to characterize either the PLO or its member groups in this way.

POLICY TOWARD THE PALESTINE INFORMATION OFFICE

Question: Are you aware that the Palestine Information Office receives about $280,000 a year from the PLO?

Answer: -- According to the information filed by the Palestine Information Office with the Department of Justice, the office receives this funding from the Palestinian National Fund. The Palestine National Fund is an organ of the Palestinian National Congress. We receive copies of the Palestine Information Office bi-annual reports, which are required by the Foreign Agents Registration Act.

Question: The Christian Science Monitor of March 17, 1987 reported that you answered Representative Kemp and Senator Dole in a letter that both the PIO Office in Washington, D.C. and the PLO Observer Mission at the UN were operating within the Law.

Are you aware that the Justice Department found that the PIO was in violation of the Foreign Agents Registration Act, since it had not fully disclosed its activities in the required registration form?

Answer: -- The Department of Justice has informed us that the Palestine Information Office is now in full compliance with the Foreign Agents Registration Act.

-- Department of Justice officials have informed us that, at the time of the Justice Department audit of the PIO in October, the office met the requirements of that law, except for some relatively minor violations, which were immediately corrected.

-- For further information on the Palestine Information Office's compliance with the Foreign Agents Registration Act, I would refer you to the Department of Justice.

-- As to whether legal authority exists to affect the operations of either office, this is an issue which under review by my Department.

Question: Are you aware the PLO offices in Europe were put under surveillance last year by security and intelligence officials because they were suspected of providing a network of support for terrorist actions?

Answer: -- I assume that foreign security and intelligence services perform a variety of operations for a variety of reasons. It would not be appropriate for me to comment further on any alleged intelligence activities by our allies.

Question: In light of the Justice Department's findings that the PIO had not fully disclosed its activities, and that PLO offices in Europe are under suspicion for involvement in terrorism, how can we be sure that the office is not participating in terrorist activities?

Answer: -- I am unaware that U.S. law enforcement agencies have any evidence indicating that the office is involved in terrorism or other illegal activities.

-- For more specific information on the operations of the office, I would refer you to the Department of Justice.

Question: Assuming it could be done legally, do you think the PIO office ought to be closed?

Answer: -- This issue remains under constant review. I would not want to engage in any speculation regarding future courses of action.

RIVER BLINDNESS

Question:

I understand that both the State Department and A.I.D. have had discussions with a U.S. pharmacetical company about a new therapy for river blindness. The use of ivermectin has the potential for helping the many people who suffer from the tragic disease of river blindness. The U.S. Government is being asked to take the lead in making ivermectin available without cost in the sections of the Third World where the disease is prevalent.

It seems to me that this is the kind of thing that our Government should be doing. The good will that comes from sharing our expertise in health care exceeds the dollar cost many times over. I would like to know what role you expect our Government to play in efforts to assure the availability of ivermectin in the Third World once it has been approved for human use.

Answer:

I am pleased to report considerable progress in plans for community-based trials of ivermectin. Since our November meeting, we have met with Merck, the Tropical Disease Research Programme of the World Health Organization (WHO), the World Bank, the Onchocerciasis Control Program (OCP), and a number of donors. We have also encouraged direct discussions between Merck and WHO to assure WHO approval and international acceptance of ivermectin. WHO visited Merck in West Point, Pennsylvania, on March 9, 1987 to review the safety records of ivermectin. Representatives of Merck told us that WHO found nothing that should delay submission of data on ivermectin to the French drug regulatory agency for licensure.

Merck representatives visited with Deputy Secretary Whitehead and myself on March 5, 1987. At that time I assured Mr. P. Roy Vagelos, CEO of Merck, of our interest in this drug and our desire to have it fully investigated as rapidly as possible. For A.I.D.'s part, we will be supporting the costs of two of the field trials which are essential to determining the drug's safety and efficacy as a public health measure.

We also discussed various options for purchasing ivermectin when it is finally cleared for widespread use. If it proves effective in the field trials and in other ways looks practical

for river blindness control, we would look to the international community already involved to carry an important share of the funding. At the same time, I want to assure you that I am committed to ensuring that the United States shoulders its traditional share of the funding and, equally important, plays a leadership role in ensuring widespread availability of ivermectin.

In short, we have stayed in close touch with Merck on this entire program and will continue to maintain close liaison with Merck, OCP and WHO to ensure the rapid investigation of this drug.

Questions Submitted by Senator Domenici

Biennial Budget Cycle

BIENNIAL BUDGET

Question:

Would your department/agency favor a biennial budget process? What benefits would your agency achieve in a two-year appropriation cycle?

Answer:

The Department generally favors a biennial budget process. Any such proposal should keep in mind that foreign affairs funding must be flexible and capable of responding to often rapidly changing situations and international financial conditions, such as overseas inflation and currency fluctuations.

If the two-year appropriation cycle actually functions as described, the primary benefit would be that the Department could make better financial plans.

Question:

Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?

Answer:

Very little of the Department's appropriations request is repetitious of the previous years' submission. The tight financial situation with which we have been operating has necessitated examination of all basic functions and the way we operate. These reviews are reflected in the budget submissions which in recent years have been very different each year.

Question:

What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?

Answer:

Apart from the difficulty of trying to predict international events which may have financial impact, the primary difficulty would be attempting to predict several years in advance further international inflation and currency exchange losses.

Question:

Would you expect to realize any budget savings if you could plan your agency budget on a two-year basis? If so, could you estimate how much?

Answer:

We would not anticipate budget savings as a result of the two-year cycle but there could be an improvement in planning which

might be reflected qualitatively rather than a reduction in resource requirements.

Question:

If you oppose the biennial budget concept, please give this subcommittee your reasons why.

Answer:

We do not oppose the biennial budget concept.

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United States Senate
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
WASHINGTON, DC 20510-6175

February 20, 1987

Honorable George P. Shultz
Secretary
Department of State
2201 C Street, N.W.
Washington, DC 20520

Dear Mr. Secretary:

By this letter we request the submission of information, not later than March 6, 1987, regarding your agency's activities in addressing the environmental problems of the greenhouse effect, global climate change, and stratospheric ozone depletion.

The Senate Environment and Public Works Committee has held a number of hearings on the greenhouse effect, global climate change, and stratospheric ozone depletion. Testimony given at these hearings has shown that we are already committed to an unprecedented increase in surface temperature over the next few decades, with possible effects including a rise in global sea level, changes in ocean circulation, and changes in precipitation patterns.

We are deeply concerned by the prospect of such major and unparalleled changes in the composition of the atmosphere, and the implications for global climatic and environmental change. We are requesting information regarding your agency's efforts in these areas to assist us in understanding the existing and anticipated programs already addressing these issues. Specifically we would appreciate your responses to the attached questions.

We have forwarded a copy of this letter to the Chairman of the Appropriations Committee, and have requested that he incorporate these questions and your responses in the record of the budget hearings for FY88.

We look forward to receiving your response no later than March 6, 1987. If you have questions, please feel free to call Kate Kimball, Ron Cooper, Steve Shimberg, or Curtis Moore. They may be reached through the Committee on Environment and Public Works at 224-6176.

Thank you for your support in working with us on these important environmental issues.

Sincerely,

Robert T. Stafford

Quentin N. Burdick

John H. Chafee

George J. Mitchell

Dave Durenberger

Max Baucus

Questions Submitted By the Senate Committee on Environment and Public Works

OCEANS AND INTERNATIONAL ENVIRONMENTAL AND SCIENTIFIC AFFAIRS

Question:

Please describe each of your program(s) which directly or indirectly involve or support work on (a) the greenhouse effect, (b) climate change, and (c) stratospheric ozone depletion, including:

(a) basic research efforts

(b) effect on human health, biota, etc.

(c) studies of policy options for avoiding, minimizing, or coping with predicted changes, including use of alternative fuels and substitute chemicals and conservation.

(d) international programs.

In addition, please describe how these issues are addressed by the Agency for International Development in their long-range planning and project development.

Answer:

Under the Clean Air Act, the Department of State is charged with negotiation of international agreements to protect the stratospheric ozone layer. Currently, the Department is intensely involved in negotiations under the auspices of the United Nations Environment Program to control ozone-depleting chemicals. We also coordinate U.S. participation in international efforts to address the greenhouse effect and climate change. For example, the U.S. Government is working bilaterally on the issue with the Soviet Union under the U.S.-Soviet environmental agreement, and we are discussing with the Canadians joint studies of regional climate impacts on the Great Lakes. Multilaterally, we work principally through the World Climate Program, a joint effort of the World Meteorological Organization (WMO), the International Council of Scientific Unions (ICSU) and the United Nations Environment Program (UNEP).

AID regulations and policy require an environmental impact statement for all major projects, including impact on climate and the stratospheric ozone layer. Also, as climate change impacts on the economies of countries with AID programs, AID assists with relief and economic adjustment.

Question:

Please indicate your current agency priorities and where, among these priorities, the problems of the greenhouse effect, global climate change, and stratospheric ozone depletion appear.

Answer:

Stratospheric ozone depletion, the greenhouse effect, and global climate change are high among the priorities of the Bureau of Oceans and International Environmental and Scientific Affairs.

Question

Does your agency have a major thrust or focus with respect to greenhouse, climate change, and stratospheric ozone issues? What are the priorities within your greenhouse, climate change, and stratospheric ozone programs? Are these multi-year efforts? When do you anticipate completing each of these projects?

Answer:

Our current focus is on negotiation of a multilateral agreement to control ozone-depleting chemicals, which we expect to be achieved this year. However, the Convention on Protection of the Ozone Layer (signed in March 1985) and the prospective protocol to control ozone-depleting chemicals involve a multiyear commitment to international cooperation on research and monitoring, implementation of the control measures, and periodic review of the protocol provisions on the basis of scientific, technical and economic considerations. This will involve ongoing State Department leadership in meetings of the parties and other negotiations, and coordination of experts' meetings and other mechanisms for cooperation under the agreements.

Coordination and advancement of international efforts to study and address the potential problems of climate change and global warming are ongoing activities expected to continue for the foreseeable future.

Question:

The scientific evidence demonstrates that we are already commited to a 2°C increase in global average temperature, and that the effects of global warming may be manifested as early as the next several decades. How have these findings been factored into your planning? How does the magnitude and timing of these changes affect your projects?.

Answer:

The Department of State, working with other agencies, coordinates U.S. Government involvement in international efforts, particularly under the World Climate Program, to address the issue, as outlined above.

Question:

Please provide a detailed accounting on the following, including a breakdown by specific offices/laboratories and projects for each fiscal year.

(A) For the greenhouse effect
  (1) Expenditures in FY-86.
  (2) Appropriations and expected expenditures in FY-87.
  (3) Budget request in FY-88.

(B) For climate change
  (1) Expenditures in FY-86.
  (2) Appropriations and expected expenditures in FY-87.
  (3) Budget request in FY-88.

(C) For stratospheric ozone depletion
  (1) Expenditures in FY-86.
  (2) Appropriations and expected expenditures in FY-87.
  (3) Budget request in FY-88.

Answer:

The Department of State does not have separate budgeted expenditures in this area. Our responsibilities for negotiation and coordination of international efforts to address climate change are carried out by officers of the Bureau of Oceans and International Environmental and Scientific Affairs and others in Washington and in the field as appropriate in the course of their normal duties.

Question:

Please describe how your agency's efforts are coordinated with those of other federal agencies and the scientific community.

Answer:

The Department of State participates in the National Climate Program Policy Board; the Domestic Policy Council Working Group on Energy, Environment and Natural Resources; and other interagency bodies as appropriate. We work closely, formally and informally, with a broad range of federal agencies involved in these issues. We consult frequently with members of the scientific community, including members of the Advisory Board of the Bureau of Oceans and International Environmental and Scientific Affairs.

When the United States participates in negotiation of an international agreement, the Department of State is responsible for assuring that legal authority for fulfilling the proposed commitment exists, that funds are available or budgeted, and that concurrance of responsible agencies is obtained. Relevant procedures are prescribed in Department of State Circular 175 of December 13, 1955, as amended.

Question:

What do you see as the five highest priority research needs in the area of greenhouse effect, global climate change, and stratospheric ozone depletion?

Answer:

The Department of State defers to agencies with technical competence on prioritization of research needs. The responsibility of the State Department is to assist with international coordination of research, which is essential inasmuch as these are global problems.

There is a vital need for coordinated international efforts to develop methodologies and create the prerequisite data bases in order to study climate impact resulting from predicted global climate change. This is needed to provide a basis for study of regional climate impacts, which would be useful, for example, for long-range planning by the Agency for International Development.

U.S. ARMS CONTROL AND DISARMAMENT AGENCY

STATEMENT OF KENNETH L. ADELMAN, DIRECTOR, U.S. ARMS CONTROL AND DISARMAMENT AGENCY

ACCOMPANIED BY:
WILLIAM J. MONTGOMERY, ADMINISTRATIVE DIRECTOR
WILLIAM S.S. AMOROSO, BUDGET AND ACCOUNTING OFFICER
BARBARA FOELAK, OFFICE OF CONGRESSIONAL AFFAIRS

Senator HOLLINGS. Our next witness this morning is Kenneth L. Adelman, Director of the United States Arms Control and Disarmament Agency. Mr. Adelman is accompanied by William J. Montgomery, Administrative Director, William S.S. Amoroso, Budget and Accounting Officer, and Barbara Foelak, Office of Congressional Affairs.

The U.S. Arms Control and Disarmament Agency is requesting $32.7 million for fiscal year 1988. This is $3.7 million more than their current funding.

Mr. Adelman, it is a pleasure to welcome you, and your staff. I am going to insert your prepared statement in its entirety in the record. You can deliver it, if you wish, I don't want to give you short shrift.

PREPARED STATEMENT

Mr. ADELMAN. You are not going to give me short shrift. This committee has always been very generous to me, and to the arms control effort. Let me just submit my statement for the record, and just say that over the years, we have tried to work within our budget.

In past years, we have even given money back to the Treasury, because I always try to pinch the pennies as much as I can, and not spend any money that we don't have to spend. I have told Bill Montgomery, if we don't have a good reason for spending it, give it back to the U.S. Treasury. We are not in the business of trying to find ways to spend the taxpayers' money.

We came in for a 12-percent increase that OMB gave us. The reason for that was that we have increased activities in Geneva. As you know, the whole process is steaming up right now. The drop of the dollar was another problem. Generally, the agency is in terrific shape.

[The prepared statement of Mr. Adelman follows:]

PREPARED STATEMENT OF KENNETH L. ADELMAN
DIRECTOR
U.S. ARMS CONTROL AND DISARMAMENT AGENCY

Mr. Chairman, it is once again a privilege to appear before you and the Subcommittee on Commerce, Justice, State and the Judiciary. We look forward to working with you and your distinguished colleagues. We appreciate the strong interest in and support for the Arms Control and Disarmament Agency which this committee has consistently demonstrated.

We continue to search for ways to strengthen our mission to develop good arms control and realistic arms control initiatives -- and arms control that really does help the security of the country and of our friends and allies overseas. The following budget request reflects this commitment and the fact that our principal Geneva negotiations and other talks with the Soviets are actively in progress.

The President's FY-88 budget request for ACDA includes $27,500,000 for continuing ACDA programs and $5,200,000 for the Reduced Enrichment in Research and Test Reactor (RERTR) program for a total of $32,700,000.

Before we begin detailed discussions of ACDA's funding requirements, I would like to review some recent developments in our arms control efforts.

ACDA has been, and will continue to be, intensively involved in both the preparation for and support of the Nuclear and Space Talks in Geneva. The staff of the Strategic Programs Bureau, led by my Assistant Director Michael Mobbs, and other elements of ACDA were intensively involved in preparation for, participation in, and support of these talks throughout 1986. They prepare and coordinate extensive political, technical and legal analyses for policy decisions related to those negotiations and lead the interagency process that develops specific guidance for the Delegation. ACDA also supports the Delegation

by providing organizational and logistic assistance both in Washington and in Geneva, as well as by having representatives on the Delegation.

Last year was one of substantial activity in the field of strategic arms control. As in 1985, the United States and the Soviet Union met on a regular basis at the Nuclear and Space Talks in Geneva. The fourth, fifth, and sixth negotiating rounds took place in 1986. The seventh round was to have concluded on March 4; however, the President has called back the three Negotiators for consultations. In addition, the INF Negotiating Group has been asked to remain in Geneva to speed up negotiations on our newly tabled INF Draft Treaty.

Along with these important negotiations, 1986 also saw a series of high-level arms control contacts. In August and then again in September, a group of high-level U.S. and Soviet arms control experts met first outside Moscow, then in Washington, for wide-ranging discussions on nuclear and space issues. In both cases, the U.S. team was headed by Ambassador Nitze.

In October, President Reagan and General Secretary Gorbachev met to discuss the spectrum of issues in Reykjavik, Iceland. Considerable progress in arms control took place there, as it broke the log-jam on some outstanding issues -- but not all of them. In November, the high-level team headed by Ambassador Nitze met with Soviet negotiators in preparation for the meeting between Secretary Shultz and Foreign Minister Shevardnadze in Vienna. Finally, in December, our chief arms control negotiators met with their Soviet counterparts in a special session in Geneva for four days of intensive talks.

But 1986 was more than simply a year of talks and meetings. It was also a year of important results. Significant progress was made--progress that just a few years ago many deemed not only implausible, but impossible.

In my view, Mr. Chairman, last year was very successful. This statement might seem curious since no agreement was reached,

no final documents were signed and nowhere did the Soviets say that they would ultimately meet us halfway on a number of remaining critical issues.

So why was 1986 such a relative success? The answer is really quite simple: at no other time in the nuclear age has arms control come closer to addressing our central strategic concerns. In 1986, for the first time, the Soviets seriously engaged in discussing, and we made progress toward, deep reductions in nuclear talks--reductions that, by improving stability, would offer the possibility of meaningfully enhancing our security. That, after all, is the key aim of arms control.

Specifically:

-- In our talks on intermediate-range nuclear forces, or INF, we and the Soviets agreed last year to eliminate entirely U.S. and Soviet longer-range INF missile warheads in Europe and to limit worldwide deployments to 100 warheads on each side, with Soviet missiles deployed in the Asian USSR and U.S. deployments limited to U.S. territory. We have also agreed in principle on several aspects of an effective verification package that would include a comprehensive exchange of data before and after reductions, on-site inspection of the elimination of weapons, and effective on-site monitoring of remaining systems and associated facilities.

-- The new INF Draft Treaty which we have tabled in Geneva builds on the achievements of Reykjavik and incorporates the substantial progress made in INF to date. There are still many difficult issues to be worked out, especially in achieving an effective verification regime and on reduction of shorter-range INF missiles in which the Soviets enjoy a substantial advantage. General Secretary Gorbachev's decision to permit progress on a seperate INF Treaty, as he originally agreed at the 1985 Geneva Summit, removes an obstacle toward progress.

-- In our talks on strategic arms reductions, or START, agreement in principle has been reached on strategic offensive

arms reductions in five years to equal levels of 1600 strategic nuclear delivery vehicles and 6000 strategic nuclear warheads. We have also made progress toward resolving some of the stickier problems in START. We have agreed on how to count heavy bombers that carry gravity bombs and SRAMs, a long-standing point of contention. Each such bomber will count as one warhead in the 6000 limit. In addition, both sides agreed to seek mutually acceptable limits on nuclear-armed sea-launched cruise missiles, or SLCMs, and to keep those limits separate from the 1600 and 6000 limits. While the Soviets have not agreed to U.S. proposed missile sub-limits, they have agreed to significant cuts in Soviet heavy missiles.

The progress achieved in both START and INF reinforces our belief that we should focus our near-term efforts on getting deep reductions in both classes of offensive nuclear systems. These were the areas of common ground identified by both President Reagan and General Secretary Gorbachev at the 1985 Geneva Summit.

Because the negotiating agenda is addressing issues that are central rather than peripheral to the stability of the strategic balance, we should not pretend that getting an agreement will be easy. Indeed, serious differences remain, and much work needs to be done.

Important differences exist in the negotiations on defense and space issues.

Among other things, the Soviets are insisting upon constraints more restrictive than those of the ABM Treaty -- constraints that are designed to cripple the SDI program. This we cannot accept, particularly in light of the Soviets' own long-term, dedicated research program on strategic defenses. The President intends to pursue a vigorous SDI research effort as permitted by the ABM Treaty, both as an investment in, and insurance for, a safer and more stable strategic balance.

Key issues to be resolved remain in the other negotiating fora as well. In INF, we continue to assert our right to a

level of shorter-range INF deployments equal to those of the Soviets and the need for global SR INF constraints. We will insist on effective verification measures. And we want an initial INF agreement to be followed by a further agreement providing for the complete elimination of long-range INF missiles and the reduction of short-range INF systems. In START, we need to achieve agreement to stabilizing sublimits within the agreed framework of reductions. We must also work on identifying adequate verification measures.

Negotiating with the Soviets is never easy. The best we can do is put forth fair, equitable proposals, bargain honestly but firmly, and encourage the Soviets to be equally forthcoming. Beyond that, we cannot force the pace of negotiations. We should also avoid any unilateral concessions. These, certainly, would only give the Soviets less reason to engage in genuine give-and-take and reward intransigence.

Tough Soviet negotiating tactics are not unexpected. They underscore the need for patience. The key to success does not lie in quick-fixes. Rather, it lies in our ability to bargain fairly, to bargain steadfastly, and to insist that arms control squarely address our security concerns and those of our allies. We must, in short, continue with the approach that has brought us this far.

In addition to the Nuclear and Space Talks, ACDA supports the Standing Consultative Commission, or SCC, the bilateral U.S.- USSR Commission established in 1972 pursuant to the ABM Treaty and the SALT I Interim Agreement. ACDA provides the U.S. Component of the Commission, a Washington base of operations and plays a leading role in interagency preparation for the SCC sessions by chairing the SCC Backstopping Committee. In addition, members of the ACDA policy, technical and legal staffs serve as members of the advisory staff of the U.S. Component of the Commission during its sessions in Geneva.

Because the SALT II Treaty was never ratified and never

entered into force, the obligations of the Parties with respect to the functions of the SCC regarding that Treaty also had not formally entered into force. Since the President's decision in May 1986 to base decisions on our strategic force structure on the nature and magnitude of the Soviet threat rather than on standards contained in the unratified SALT II Treaty, the U.S. has not raised SALT II issues in the SCC.

During 1986, the Commission met three times in Geneva to discuss compliance issues of concern to the two sides. Two were regular sessions, while a third, held from July 22 to July 30, was a special session requested by the Soviet Union. The purpose of the session was to respond to Soviet questions and concerns about President Reagan's May decision, and to hear Soviet responses to our concerns about Soviet noncompliance with the SALT agreements. The United States also used the opportunity to renew President Reagan's call for the Soviet Union to join us in establishing an interim framework of truly mutual restraint pending conclusion of an equitable and verifiable agreement for deep reductions in offensive nuclear arms.

In 1986, we also had two meetings in Geneva with the Soviets on establishing a Nuclear Risk Reduction Center. This effort is continuing in 1987.

In the Multilateral Affairs area of arms control ACDA heads the U.S. delegation to the 40-nation Conference on Disarmament (CD) in Geneva. ACDA's Assistant Director of Multilateral Affairs, Lynn Hansen, chairs the Interagency Group which provides policy guidance to the U.S. delegation. ACDA heads the U.S. delegations to the U.N. Disarmament Commission, to the UNGA First Committee which deals with arms control issues, and to the NATO Disarmament Experts meeting, held twice a year in Brussels. The Agency is represented by officers on the U.S. delegations to the Mutual and Balanced Force Reductions (MBFR) talks in Vienna and to the Conference on Security and Cooperation in Europe which is currently holding its Third Review Conference.

ACDA plays a key role in the negotiations in the CD on a comprehensive chemical weapons ban. In accordance with the agreement between the United States and the Soviet Union at the 1985 Summit, U.S.-Soviet bilateral negotiations continue this year on an intensified basis. Also pursuant to the 1985 Summit initiative, the U.S. and the Soviets continue to engage in bilateral discussions on the proliferation of chemical weapons. In addition, ACDA is actively involved in consultations with other Western countries on measures to curb the spread of chemical weapons.

ACDA is an active participant in NATO deliberations preparing for possible new negotiations with the Warsaw Pact on conventional force reductions. ACDA plays a leading role in the U.S.-Soviet expert talks on nuclear testing which began last year. My Assistant Directors for Multilateral Affairs and for Verification both provide experts for the U.S. delegation.

ACDA also has the lead in preparing for and participating in an international experts meeting in April to elaborate a package of supplementary stabilizing measures which were agreed to last year at the Second Review Conference of the Biological and Toxin Weapons Convention.

ACDA participates actively in developing and implementing policies that seek to prevent the spread of nuclear weapons to additional countries. ACDA's Assistant Director for Nuclear and Weapons Control, Dr. Lewis Dunn, plays a key leadership role in this area, together with other senior U.S. officials. I will describe the major elements of current U.S. non-proliferation policy, noting that ACDA's involvement in these matters will continue into FY-1988 and, of course, beyond.

The Treaty on the Non-Proliferation of Nuclear Weapons (NPT), which entered into force in 1970, remains a central element of the non-proliferation regime. ACDA continues to take the lead within the Executive Branch in promoting this Treaty. The 1985 NPT Review Conference endorsed the NPT as vital to the security of all nations. Since that Conference, five countries

have joined the NPT, including, most significantly, North Korea. There are now 135 parties to the NPT and ACDA will continue an active effort to promote additional adherence. Preparations for the 1990 NPT Review Conference will need to begin in FY-1988.

The Treaty of Tlatelolco, an initiative of Latin American nations, is strongly supported by the United States as an important regional approach to non-proliferation. Under this Treaty, which entered into force in 1967, 23 Latin American countries have pledged not to acquire nuclear weapons. ACDA also has the lead within the Executive Branch for this Treaty and will continue to search for ways to bring it into force for all countries in the region.

The International Atomic Energy Agency (IAEA) plays a significant role in non-proliferation through the implementation of a system of safeguards designed to guard against the diversion of nuclear material to military uses and through technical assistance to developing countries in the peaceful uses of nuclear energy. ACDA's support for the IAEA is substantial and constitutes an important component of overall U.S. support for the IAEA. Following the accident at the Soviet Union's Chernobyl nuclear power station in April 1986, the IAEA provided exemplary leadership and expanded its activities in the area of nuclear safety.

ACDA has developed considerable experience in the area of domestic and international nuclear export control. Current efforts within ACDA focus on further improvements in export control lists and on approaches to the question of dual-use exports (e.g., items with nuclear and non-nuclear uses). ACDA staff are also working to improve the U.S. Government's ability to prevent illegal procurement of U.S.-origin goods on behalf of foreign nuclear programs.

In the years ahead, it is likely that the use of plutonium as a fuel for power reactors will continue to increase significantly. This will pose new challenges for IAEA safeguards at large plutonium use facilities and for physical protection of the storage and

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international transport of plutonium. ACDA will continue to work with the IAEA and bilaterally with other nations to develop effective safeguards, physical protection, and institutional measures to help assure that increased plutonium use will not significantly increase the risk of proliferation or the hazards of terrorism.

For many years, the United States has been seeking to reduce international commerce in high enriched uranium (HEU), a material which -- like plutonium -- is usable in nuclear weapons. To support this policy, in 1979, the Executive Branch established the Reduced Enrichment in Research and Test Reactor (RERTR) program. For FY-1987, funding and programmatic oversight for RERTR was transferred from the Department of Energy to ACDA. ACDA is again requesting funding in FY-1988 to continue RERTR work. Because of its importance to non-proliferation, ACDA is strongly committed to the successful completion of the RERTR program. We expect that by 1990 new lower enriched fuel will be available for most, if not all, research reactors now requesting HEU from the United States. There has been substantial international cooperation with this program, and continued budgetary support is very important to the further success of this effort.

The Convention on the Physical Protection of Nuclear Material should also be noted in connection with commerce in plutonium and HEU. This Convention, which entered into force earlier this year, established norms for protecting nuclear material, especially when such material is in international transit. It also promotes enhanced cooperation among its parties in efforts to reduce the risks of theft and misuse of commerical nuclear material.

ACDA also spends considerable effort in monitoring the programs and policies of countries of proliferation concern. The destabilizing impact of nuclear programs in certain key regions poses major risks to U.S. security interests and to the prospects for peace. U.S. policies are directed at encouraging these countries to accept measures that minimize regional nuclear

instability. Such measures may include bilateral agreements or understandings, expanded coverage for IAEA safeguards, and acceptance of the NPT or, in Latin America, of the Treaty of Tlatelolco.

ACDA will also continue to meet its Congressionally mandated responsibilities to advise Executive Branch decisionmakers on the extent to which proposed conventional arms transfers or military assistance will contribute to an arms race; increase the possibility of outbreak or escalation of conflict; or prejudice the development of bilateral or multilateral arms control arrangements. The Agency provides its views on the arms control implications of about 1,500 government-to-government requests for military equipment and commerical license applications per year. ACDA also participates in the development of proposed annual security assistance programs in order to ensure that arms control considerations are fully taken into account in the development of these programs. In the critical areas of verification and compliance, Dr. Manfred Eimer, ACDA's Assistant Director for the Verification and Intelligence Bureau, co-chairs the Arms Control Verification Committee Analysis Group which prepared the recent reports to Congress on Soviet non-compliance with existing arms control agreements. Thus far, four Presidential reports on Soviet non-compliance have been forwarded to Congress. Classified and unclassified versions of these reports were sent to Congress in January 1984, February 1985, December 1985, and March 1987. From an arms control point of view, non-compliance continues to be a deeply troubling concern. If we are to achieve true reductions and have confidence in the results of the negotiations, we must be confident that we can determine whether the Soviets abide by their commitments. We must also keep in mind that, in addition to the detected violations, there has been an increase in Soviet efforts to conceal, cover, and deny the United States information that is needed to assess activities related to arms control.

We are also conducting a number of studies to improve the

verification of future agreements. These studies have been key inputs in the development of the verification measures for treaties in START and INF. ACDA is working with other agencies on incorporating these measures into draft treaties to reduce the verification uncertainties in the future. The Executive Branch is attempting to increase its research efforts in order to resolve outstanding verification and compliance issues. This has proved to be a difficult program to fund given existing commitments. ACDA will, nevertheless, make a strong effort to include this in its external research program. The United States and the Soviet Union have had four sessions of the Nuclear Testing Experts Meetings in Geneva. In these meetings both sides have described, in detail, their preferred approaches to the verification of the Threshold Test Ban Treaty and the Peaceful Nuclear Explosion Treaty. The U.S. position has been and continues to be that the first order of business is to obtain Soviet agreement to verification improvements for the TTBT and PNET, including on-site direct yield measurements. Once our TTBT and PNET verification concerns have been satisfied and the treaties have been ratified, we would engage immediately in negotiations on ways to implement a step-by-step parallel program, in association with a program to reduce and ultimately eliminate all nuclear weapons, of limiting and ultimately ending nuclear testing.

ACDA has supplied the head of the NTEM delegation and the executive secretary. ACDA continues to supply the executive secretary and an ACDA representative. These sessions have been supported out of ACDA funds and will be supported in the future in the likely event that negotiations proceed. ACDA will also have to support this effort through its external research program as called for in the Arms Control Act.

Our classified computer system is now fully operational and widely used throughout the Agency. Important uses include a series of analyses being performed with the Arsenal Exchange Model in support of current strategic arms negotiations. These studies,

which were requested by Ambassador Nitze, will greatly improve the evaluations of a variety of options, from both a U.S. and Soviet point of view. We have installed a powerful computerized retrieval system to improve the accessibility of the negotiation records, position papers, and background studies, of all major arms control negotiations.

A project currently underway will provide a similar system for the retrieval of authoritative verification and compliance statements made by U.S., Soviet and other country officials. This project is being carried out cooperatively with the Canadian Foreign Ministry as one of the activities resulting from the Quebec Summit of 1985, where President Reagan and Prime Minister Mulroney agreed to "...joint research efforts to strengthen our capacity to verify agreements on the control of armaments." Another computerized system keeps track of arms control related research conducted by or for all agencies of the U.S. Government, as required by the Arms Control Act.

We also have underway a program to update our office equipment capability. Modern word processor and personal computer equipment are being installed for the decentralized use of our bureaus and offices with networking features to communicate electronically on a secure basis. This new office automation system will significantly enhance the capacity and output of our small staff.

Mr. Chairman, at this time I would like to submit to the Subcommittee ACDA's FY-88 appropriation request.

Last fall, when we began the FY-88 budget process with OMB, we worked to determine the priority for ACDA's mission, competing with other Agencies for funding within the framework of the President's balanced budget initiative. The result was a positive endorsement of ACDA's role in the arms control process from OMB and the Administration. Consequently, we were able to obtain approval for our current budget request.

Included in our request is $48,000 for representational funds. These funds are used primarily for informal contacts with representatives of foreign countries both here and overseas. The

bulk of these expenditures are for the work of our delegations in Geneva, Vienna and in contact with foreign government representatives. Our Ambassadors in Geneva are strongly of the opinion that the additional face-to-face meetings with the Soviets, which these resources permit, are extremely valuable to their work by providing a less rigid atmosphere than that of the formal plenary meeting process.

As you know, about 50 percent of ACDA's continuing programs budget goes for salary and benefits. Our FY-88 request makes provisions for a total of 265 positions of which 208 are either full-time permanent or temporary ACDA staff and 57 are reimbursable positions with personnel from other agencies, primarily the State Department and Department of Defense. Other major expenditure categories are support services, which we receive from other agencies and which are provided to the delegations through the U.S. Mission Geneva, and overseas travel.

As negotiations have progressed in Geneva, we have looked closely at the physical facilities that are needed to adequately house the delegations and provide for adequate security of the staff and their working environment. We have moved the delegations handling our bilateral negotiations with the Soviets to the U.S. Mission building to better meet their needs.

A longer-term solution to the requirements of our arms control efforts in Geneva continues to be addressed by a joint ACDA-Department of State effort to construct a new dedicated building on the grounds of the U.S. Mission. Funding for this project was appropriated by State in FY-87. State is currently negotiating with adjacent landowners for additional parcels which would permit the construction of the new building to meet the Canton of Geneva's zoning codes. Final approval and construction cannot proceed until this has been resolved. The completion of this new building should greatly improve the working conditions of the delegations and meet what are unfortunately ever increasing security considerations.

Our FY-88 request for continuing ACDA programs is $3,300,000

higher than last year's level. But in light of the amount of negotiating activity with the Soviets and other countries and the other programs which ACDA is mandated to carry out, I believe that this level of funding is essential to our Agency's mission.

I ask for your support, Mr. Chairman, in obtaining Congressional approval for ACDA's FY-88 appropriation request. I, my staff and the members of our Geneva delegations look forward to working with this Committee and with the Congressional Arms Control Observer Group on the crucial and important arms control issues which we face today.

Senator RUDMAN. I wanted to compliment Mr. Adelman on the job that he does, not only his policy job, but his administrative job. The only problem you have had has been a currency problem, which you have no control over. As powerful as you are, that is something that you can't control.

I just wanted to say that it is always a pleasure to have you before the subcommittee because your agency gives us a very clear budgetary proposal, lives up to it, and has turned money back. I am very pleased.

Mr. ADELMAN. Thank you.

Senator HOLLINGS. Senator Lautenberg.

Senator Lautenberg. Let me say, Mr. Adelman, I think that you do a very good job.

POSITION ON ABM TREATY

Mr. ADELMAN. Let me compliment, while we are in this love feast, the chairman on taking a very brave position on the ABM Treaty as he did last week, and again, although I have not read the record, this morning. It is an issue that I have talked to Senator Rudman about in the past, and it is very important to look at that record.

It is important, as we were discussing just now, not only because of issues related to SDI, but also because of the ability to answer the question: Will SDI work?

Certainly, it is an important issue in historical terms, and I know I sit at the knee of a great historian here, in terms of what a negotiation actually does. It seems to me clear from the record that the United States wanted to capture what is called the narrow interpretation.

It is clear that the President told the negotiators to go capture it. It is clear that the negotiators went and chased the Soviets around the room for 2 years to try to capture it. It is clear that they never brought home the bacon.

Senator HOLLINGS. Right.

Senator RUDMAN. I find it very interesting. He is to be commended in this atmosphere for being brave enough to take a position that is correct.

Senator HOLLINGS. It was not brave. It was correct.

Mr. ADELMAN. We feel that it is admirable.

Senator HOLLINGS. I considered it in a studied fashion. I went into the Helsinki and SALT-I, and ABM, back in August 1971. I stayed there at length, listening all day long to the best negotiators, Jerry Smith, Harold Brown, Paul Nitze. We went over everything, and I began to become attune to the language of the art, the nuances of negotiations, and the words don't appear to mean what they really mean, and those kinds of things.

I saw how what they had negotiated was changed around in January of 1972, when Secretary Kissinger and President Nixon arrived in Moscow. They were sort of given a shakedown all night long, and all day and all night, in order to get a treaty. Then upon the ABM ratification, we were all really in counterpoint from SALT-I, we knew that ABM was balanced and verifiable, and that was all we looked at. We knew that it was only for 5 years. We were all zapping in on SALT-I, and we knew that that was unequal, and everything else, hence the Jackson Amendment. This was all in August and September, you see, of 1972. So I came to this in a studied fashion.

Then I am looking at a man I admire, who has been derided at this end of the Capitol, Lieutenant General Rowny. I have been over to the MBFR in Vienna, and with Rowny and the others in Geneva, I am listening and saying, why would a Lieutenant General, who speaks Russian and was picked up by George Marshall in the early days to write SALT-I, and Peace and Disarmament, a momument of work, not be present at the signing of SALT-II. When he was in Dartmouth, or Yale, somehow he was picked up by Secretary Marshall, who was a student of this particular job. Why would Rowny hang up his three stars and not want to be present when they signed SALT-II?

So there we were. I then went into the negotiation records of SALT-II, and I have four file drawers full of it. When they are ready for the debate, I will be there.

Mr. ADELMAN. Let me just say that this is an exemplary task for a Senator to look at, and when you realize the way we ratified SALT-I and the ABM Treaty, it was not with great conscientiousness. The President lands on the parking lot there, and then everybody tries to steamroll the thing through, it is not the kind of question of what happened that we should have.

Senator RUDMAN. I think we can adjourn now.

SUBMITTED QUESTIONS

Senator HOLLINGS. There are additional questions from myself and the Members which we will ask you to answer for the record.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

Q. On the average, what proportion of National Security Council meetings do you participate in? Do you see yourself as presenting an independent, arms control-advocating point of view in administration deliberations?

A. I have attended all meetings of the National Security Council involving weapons procurement, arms sales, consideration of the defense budget, and all arms control and disarmament matters. As the principal adviser to the Secretary of State, the National Security Council, and the President on arms control and disarmament matters, I feel that I do present indepedent views in administration deliberations in this area.

Q. Have there been occasions when you disagreed with either the State Department or the Defense Department's stand on an issue? If so, what were the specific issues and areas of disagreement?

A. It would be impossible for anyone participating in the interagency decision process to not have a differing viewpoint at one time or another with the other agencies. This is the nature of the inter-agency process, to discuss and exchange views so that the President may have the benefit of different judgements. However, the advice I give in my capacity as Director of ACDA to the President is confidential in nature.

Q. Has your arms control-oriented input in any case modified or significantly affected an administration policy or major decision? If so, please elaborate.

A. As a participant in all National Security Council meetings pertaining to arms control and related subjects, I feel that ACDA has a great deal of influence in those major decisions within my area of responsibility. There have been many times that our advice has shaped U.S. policy, many more that I would have imagined four years ago. As I have stated earlier, however, my advice in these matters is of a confidential nature.

Q. Does ACDA perform any functions you consider unnecessary?

A. No ACDA would not be performing them if I considered them to be unnecessary.

Q. What is the U.S. perception of the Soviet position on short-range, intermediate-range nuclear forces systems.

Specifically, if there are long-range INF reductions, are the Soviets willing to reduce or eliminate their short-range systems at the same time?

A. The Soviets currently are backtracking on earlier commitments to include constraints on shorter-range INF missiles in an initial agreement reducing and limiting longer-range INF missile systems.

While the Soviet SRINF position is in flux, the Soviet position in Geneva appears to be based on Gorbachev's February 28 Statement, which would take SRINF out of the current INF negotiations, in favor of separate negotiations on these shorter-range INF missiles. This Soviet position is a major step backward from the previous Soviet position, confirmed at Reykjavik, to constrain SRINF missiles as part of an initial INF agreement reducing and limiting longer-range INF missiles in order to ensure the viability and effectiveness of an INF treaty.

In his February 28 statement, Gorbachev also proposed to withdraw Soviet SS-12/22 scaleboards, deployed in Eastern Europe, back to Soviet territory. This proposal also does not address our basis concern that SRINF missiles be constrained in an INF agreement.

Q. What kind of monitoring is the United States seeking at Soviet production facilities on INF systems: Are we insisting on permanent human on-site inspection, or occasional inspection on a challenge basis, or would electronic monitoring be sufficient?

A. The U.S. has worked out, in close consultation with its Allies, an effective verification regime which contains several on-site inspection and monitoring provisions. These provisions, which are contained in the U.S. INF Draft Treaty, include:

--an initial comprehensive inspection to confirm the baseline data provided by both sides.

--inspections to verify the elimination of systems reduced under the provisions of the treaty, and;

--inspections and monitoring to verify the permitted residual levels of treaty-limited systems.

The final set of measures could include continuous on-site monitoring, by both human presence and by electronic monitoring devices, of certain critical U.S. and Soviet facilities for the production, final assembly, repair and storage of treaty-limited systems. It would also permit short-notice on-site inspections of "declared" U.S. and Soviet facilities and of U.S. and Soviet operated facilities which are not "declared" facilities.

Q. The Soviet Union observed a unilateral nuclear testing

moratorium for some 18 months before ending it earlier this year. Last year's U.S. military posture statement indicated that the U.S. and Soviet "Relative Technology Levels" for nuclear warheads were "equal", but this year's report indicates that this factor has changed to favor the Soviet Union. How do you explain the changed assessment? How did the Soviets get ahead without testing? If they did, does it not contradict the Administration's claim that the United States must continue nuclear tests in order not to fall behind the U.S.S.R. in nuclear warhead technology?

A. We have been told that the Chairman of the Joint Chiefs of Staff has responded to the same question from Congressman Markey. We support his statement that, to the limits of our knowledge, U.S. and Soviet warhead technology levels are approximately equal. The Administration has focused on the need for testing in terms of the reliance of the United States on nuclear deterrence. A ban on testing must be viewed in the context of a time when we do not need to depend on nuclear deterrence to ensure international security and stability, and when we have achieved broad, deep, and verifiable arms reductions, substantially improved verification capabilities, expanded confidencebuilding measures, and greater balance in conventional forces.

Q. The State Department's munitions export licensing caseload increased to a record high of over 49,000 cases in FY-1986.
(a) What percent of those cases were reviewed by ACDA?
(b) Does ACDA have written criteria governing what cases it reviews?
(c) Of those cases reviewed by ACDA, what percent represent the transfer of technical data and manufacturing rights versus the transfer of hardward items? Is there a trend?
(d) How frequently has ACDA objected to proposed munitions transfers?
On what basis?

(a) In FY-1986 ACDA reviewed about 3% of the total.

(b) Yes. ACDA has a written agreement with the State Department under which the Agency reviews all licenses for sale or marketing of major end items as well as other cases which could affect regional stability and regional force balances.

(c) We estimate that 15-20% of our cases are for technical assistance, co-production or other manufacturing licenses, or are for technical data that could lead to such arrangements. The balance are for marketing (including marketing data) or sale of hardware. Cases for the transfer of technical data and manufacturing licenses are increasing steadily as a percentage of total cases.

(d) ACDA recommends against approval, either completely or partially, of about 15% of the cases it reviews. The basis for objection has varied. Most commonly, ACDA has recommended against approval of proposed transfers when there is clearly no demonstrated military requirement for the item requested, when the sale could stimulate reactive purchases by neighboring countries, when the sale could disturb a local military balance, or when the sale could exacerbate regional tensions and increase the possibility of the outbreak of conflict.

Q. To what extend does ACDA's World Military Expenditures Reports include information on the value of U.S. technology and manufacturing capabilities exported?

A. The data in ACDA's report, World Military Expenditures and Arms Transfers (WMEAT), come from the Department of State's office of Munitions Control for commerical sales and the Defense Security Assistance Agency (DSAA) for Foreign Military Sales (FMS) transfers, and they are the best authority for the contents of their data. The commerical transfers licensed by State and reported in WHEAT include manufacturing licenses, technical assistance, other defense services, end-items, components, accessories, attachments, parts, firmware, software, and systems. We do not acquire any breakdown of total commerical transfers and do not know the extent of technology and manufacturing capabilities exports. The FMS data we obtain from DSAA covers material only and excludes military services. It includes little or no information on manufacturing capabilities and technology.

Q. To what extent do U.S. arms transfer policies contribute to the development and/or expansion of arms manufacturing capabilities in third world countries? How effective are U.S. controls over subsequent retransfers of equipment and technology, particularly to countries with whom we would not otherwise deal directly in arms trade?

A. Pursuant to the Administration's arms transfer policy, announced in July 1981, requests for co-production or the transfer of sensitive or advanced technoloy receive special scrutiny. In cases where it is found to be in our national interest the United States assists countries to develop their own capabilities. Proposed agreements are carefully reviewed to insure that the restrictions required by law and policy on transfers to third countries are included. ACDA has no independent means to verify compliance with these restrictions. However, we would inform the Office of Munitions Control in the Department of State of any indication we receive of unauthorized retransfers.

NUCLEAR

Q. How well euipped is the U.S. and NATO to provide an adequate conventional defense should the U.S. and Soviet Union reach agreement on reducing or elimating intermediate range nuclear weapons? How would such an accord impact U.S. defense spending?

A. Under its flexible response doctrine, NATO does not rely solely on conventional forces to deter or defend against non-nuclear attack; however, deterrence of such an attack by the Soviet Union and Warsaw Pact is enhanced by effective conventional forces that could stop aggression without resorting to conflict escalation. The conventional forces balance in Europe has historically favored, and still favors, the Warsaw Pact by very sizeable margins. Moreover, NATO can no longer rely as heavily as it once did on its nuclear forces in Europe to compensate for the Warsaw Pact's conventional advantages because of the Soviet Union's across-the-board improvements to its non-strategic nuclear forces. For these reasons, NATO must make greater efforts to enhance its conventional capabilities. Although an INF agreement will contribute to nuclear stability and security in Europe, it will not remove, but rather will increase the importance of, the need to eliminate conventional disparities through arms control and an improving force posture. The conventional Defense Improvements Program within NATO, established in response to the need to enhance conventional capabilities, is intended to identify emerging technologies that will improve the conventional balance. This effort, in conjunction with initiatives to increase the level of allied arms production cooperation will ensure that our conventional forces remain a realistic deterrent and may even reverse recent unfavorable trends. In sum, an INF agreement will have a negligible impact on U.S. defense spending. Indeed, the Administration's overriding objective is to keep defense funding on an even keel and to achieve even a modest commitment to annual growth in the defense budget.

Q. At what level of nuclear arms reductions between the U.S. and Soviet Union would we begin to see decreasing benefits, i.e., an increased potential for conventional conflict, or a conventional arms race?

A. U.S. arms control objectives include reducing the risk of all war, both conventional and nuclear. We would not want the risks of conventional war, or of political intimidation through conventional threats to increase, as we reduce nuclear weapons. Therefore, improvements in the stability of the conventional balance are a necessary corollary for further progress towards a less nuclear world. The results of those efforts at conventional improve-

ment will have to be taken into account as we consider negotiating nuclear reductions beyond those near-term START and INF agreements on which we are now focusing.

Q. How would significant reductions in the U.S. and Soviet nuclear arsenals impact the relative standing of lesser nuclear weapon states? What is the potential for significant reductions of nuclear weapons among those states?

A. With the large nuclear arsenals possessed by the U.S. and USSR today, clearly even significant reductions, as envisioned in our START and INF proposals, will have little impact on the relative standing of other nuclear weapon states. Other nuclear weapons states will have to decide for themselves whether, when, and to what extent they can consider participation in nuclear weapons reductions. The U.S. Government cannot speak for other sovereign nuclear weapon states about their willingness to reduce their arsenals. For the immediate future, we will continue to base deterrence on the ultimate threat of devastating nuclear retaliation; and, therefore, for the foreseeable future, we and our allies must continue to maintain a modern and effective nuclear deterrent.

Nevertheless, guided by the strategic concept that was developed for, and which underlies, the U.S. approach to the Geneva Nuclear and Space Negotiations, the U.S. looks forward to a period of transition to a more stable world, with greatly reduced levels of nuclear arms and an enhanced ability to deter war based upon an increasing contribution of non-nuclear defenses against offensive nuclear arms. As the U.S. and Soviet strategic and intermediate-range nuclear nuclear arsenals declined significantly, we would seek to negotiate reductions in other types of nuclear weapons and involve, in some manner, the other nuclear powers.

Nuclear Winter

In the past couple of years much attention has been given in the press to the subject of Nuclear Winter, i.e. the potential for long-term climatic and environmental effects to result fronm nuclear war.

Q. To what extent has ACDA been associated with the ongoing interagency research program examining this theory?

A. Because of the particular responsibilities of ACDA, we have not been directly involved in the ongoing interagency research program examining the theory of nuclear winter. However, ACDA's Strategic Programs bureau monitors development in the field of nuclear winter theory and participates in the

interagency decision making process on the issue. For example, ACDA took the lead in preparing an interagency message to U.S. diplomatic posts on this subject and reviewed work conducted under the auspices of the UN system.

Q. Is the U.S. providing adequate funding of this theory's scientific uncertainties and policy implications?

(a) Has ACDA funded any research in the Nuclear Winter area?

(1) If so, what?
(2) If not, does it plan to?

A. As it is not a direct participant in planning for the interagency research program on nuclear winter, ACDA is not in a position to comment on specific funding levels.

ACDA has not funded any specific research in the nuclear winter area and has no current plans to do so.

Q. What are the policy implications of the Nuclear Winter theory?

(a) To what extent are the policy implications of Nuclear Winter factored into U.S. nuclear strategy? Should they be?

(b) Is there any ongoing research into the policy implications of the Nuclear Winter theory? If so, to what extent? Is it sufficient?

A. First, it must be recalled that important scientific questions about nuclear winter remain to be answered. This is particularly true about questions about the magnitude and duration of any climatic effects. That being said, plausible-nuclear winter hypothesis seem to confirm our existing nuclear strategy, which is based first of all on deterring war and second, if war occurs, on the earliest possible termination of hostilities on terms that protect U.S. and Allied interests. Strategic defense, of course, it we can build effective ones, would reduce the world's vulnerability to nuclear winter effects.

Q. One area of Nuclear Winter research where funding has been limited is in the area of biological implications (including the impact on world food supplies and delivery systems)?

(a) What is the current level of funding in the biological area?

(b) What funding is planned for FY 1988?

A. As it is not a direct participant in planning for

the interagency research program on nuclear winter, ACDA is not in a position to comment on specific funding levels.

Q. What is the current Soviet thinking on the nuclear winter issue? Plausible theory or propaganda ploy?

A. The Soviet Union does conduct research in the field of nuclear winter theory. As in the United States, the scientific work has not come to any firm conclusion or consensus. However, while the Soviet Union continues to build up its nuclear forces, they have used the international public concern over the possible environmental effect of a nuclear exchange for their own propaganda purposes. Soviet spokesman regularly point to nuclear winter theories and other international concerns as support for their unrealistic proposals of global disarmament. This is not a new phenomenon as the Soviets have long tried to build on the legitimate concern over nuclear weapons which can be freely expressed in western countries, to gain support for their positions in arms control. At the same time, it is clear that the Soviets have not yet made any final judgements on various nuclear winter theories or even take this seriously enough to have had an impact on their own defense plans or arms control positions.

Q. To what extent, if any, has the Nuclear Winter theory been a factor in current arms reduction negotiations?

A. The destructive capability of nuclear weapons, whether from environment impact or other factors, has been one of of the driving causes of a search for arms control. Thus, nuclear winter theories have been seen to add to the sense of urgency whether exact effects like nuclear winter can be proved or not. The United States has long advocated balanced, effective and verifiable nuclear arms control agreements and is actively engaged in the Geneva nuclear and space talks to that end. However, the basis of our arms control policy and positions must be the search for sound agreements which promote stability.

Questions Submitted by Senator Rudman

Q. There has been criticism from some quarters regarding the President's "zero option" the intermediate range nuclear missiles in Europe, especially since the Soviet Union has appeared to endorse the concept. In fact, you responded to these criticisms in an editorial in the Washington Post several days ago. Could you amplify on why you think the elimination of intermediate range missiles will not lead to a weakening of the defense links between the United States and Western Europe?

A. The argument that moving the U.S. LRINF missiles from Europe would weaken our defense links with Europe or "decouple" Europe from the U.S. nuclear umbrella overlooks a number of key factors in our current defense relationship.

To begin with, the U.S. commitment to the defense of Europe is based on a number of basic historic and strategic considerations that have not changed. The "zero option" would not affect this basic commitment. In connection with this commitment, the U.S. would continue to deploy substantial numbers of nuclear weapons in Europe, in addition to providing the protection of its strategic arsenal.

The U.S. link to Europe also is assured by the continuing deployment of over 300,000 U.S. troops on European soil, whose presence would not be affected by an INF agreement.

Such an agreement would generate strong public support in Europe and strengthen U.S.-European relations over the long-term. It also would reaffirm the U.S. capacity to manage the crucial relationship with the Soviet Union in a constructive, stabilizing fashion and raise European confidence in the U.S. ability to manage other key security problems within the Alliance, such as the need for reductions and limitations of residual SRINF systems and the removal of existing imbalances in conventional and chemical weapons.

Q. In seeking an agreement with the Soviet Union on medium range nuclear missiles, the United States is maintaining that it must retain the option to convert these missiles into short-range weapons. The Russians maintain that this is a new proposal and that it is an attempt by the United States to scuttle an agreement.

Is this a new proposal, or has this been the United States position all along?

A. Recent Soviet claims that this position is new and somehow undermines the "zero option" especially by permitting conversion of LRINF systems to shorter-range systems are patently false and disingenuous. The U.S.

INF Draft Treaty calls for the reduction of LRINF missiles to 100 warheads globally, with zero in Europe. Thus, LRINF missiles above 100 would cease to exist.

The United States position is that elimination of LRINF systems could be accomplished by either dismantlement, destruction or conversion. The Soviet are fully aware of this position.

To permit such an agreement on longer-range INF missiles from being undermined, the U.S. treaty proposal also calls for the right to U.S.-Soviet equality in shorter-range INF systems at the current Soviet level. The Soviet Union now enjoys a monoploy of over 100 deployed SRINF missiles, compared with zero for the U.S. Whether this equality is achieved through U.S. production of new missiles or conversion of existing missiles would not effect the end result -- the elimination of LRINF missiles in Europe and appropriate constraints on U.S. and Soviet SRINF missiles.

Q. Last year we took over from the Department of Energy the Reduced Enrichment in Research and Test Reactor program (RERTR). $4.8 million was provided in 1987, and you are requesting $5.2 million in 1988. How does this program work, and how long is it expected to last? Will costs continue to increase?

A. The RERTR program has been a critical element in the U.S. non-proliferation policy objective to significantly reduce the amount of weapons-usable highly enriched uranium in international commerce. This program has had bipartisan support since 1978 and is nearing a successful conclusion, scheduled for FY 1990. When the RERTR program was initiated over 100 reactors in 35 countries required about 1000 kg of HEU annually. The RERTR effort has reduced these requirements significantly: today, about 10 foreign reactors require the export of 300 kilograms of HEU annually. By the conclusion of the program, our objective is to virtually eliminate U.S. exports of HEU for use in research reactors.

This objective is being accomplished by:

(a) Developing and demonstrating new high density low enriched uranium (LEU) fuels which can be substituted without significant economic and technical penalties for the HEU fuels now required;

(b) Developing generic data and calculational methods required to analyze the reactor engineering and safety performance characteristics of the reactors operating with the new LEU fuel;

(c) Providing technical assistance and support to foreign

reactor operators to analyze the effects of converting their facilities to LEU fuels.

With regard to program funding and management, ACDA will transfer funds to DOE for RERTR through a reimbursable agreement. The work statement for the contract will be mutually agreed upon by ACDA and DOE, and the day-to-day management of the technical activities to support the work statement will be the responsibility of the Argonne National Laboratory RERTR Program Director.

The current cost projections for the program are as follows:
FY-88 $5.2 million
FY-89 $5.0 million
FY-90 $4.0 million

QUESTIONS SUBMITTED BY SENATOR DOMENICI

Q. Would your department/agency favor a biennial budget process? What benefits would your agency achieve in a two-year appropriation cycle?
-- Approximately what proportion of your annual appropriation request would you consider simply repetitious of the previous year's submission?
-- What difficulties can you foresee in preparing and submitting a two-year budget to the Congress?
-- If you oppose the biennial budget concept, please give this subcommittee your reasons why.

A. Yes, ACDA supports a biennial budget process. ACDA's budget normally has 54% of continuing program funds allocate to salaries and benefits and another 29% budgetted for administrative support costs such as rent, utilities, maintainance, and other reimbursable support agreements. These expenses are all of a fixed or semi-fixed nature and remain on-going requirements for ACDA from year to year. This leaves less than $4.7 million, or 17% of ACDA's FY-88 budget request (excluding RERTR) which is only a small portion of the total appropriation that can be managed year to year. Included in this 17%, however, are travel costs of the delegations, the external research projects and operational expenses for supplies and equipment.

With a two-year appropriation cycle in place, the preparation time for the one budget submission would be cut approximately in half; thus providing additional time for long-term planning, evaluation and analyses, and internal review. A two-year appropriation would also provide a degree of certainty, which would enable ACDA to execute financial decisions more efficiently.

One negative aspect of the two-year appropriation, from ACDA's perspective, is the effect on budget items that are difficult to predict far in the future. This includes expenses such as exchange rate fluctuation, negotiation schedules and other quick-turnaround requirements. However, these probably could be accommodated in a supplemental budget request when needed.

SUBCOMMITTEE RECESS

Senator HOLLINGS. This concludes our hearing for today. We will stand in recess until Wednesday, April 1, 1987, at 10:00 a.m., when we will hear from the International Organizations of the State Department.

[Whereupon, at 12:17 p.m., Wednesday, March 25, the subcommittee was recessed, to reconvene at 10:00 a.m., Wednesday, April 1, 1987.]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1988

WEDNESDAY, APRIL 1, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room S–146A, the Capitol, Hon. Ernest F. Hollings (chairman) presiding.

Present: Senators Hollings and Bumpers.

DEPARTMENT OF STATE

INTERNATIONAL ORGANIZATIONS AND CONFERENCES

PERMANENT REPRESENTATION TO THE U.N.

AMBASSADOR VERNON A. WALTERS, PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

OPENING REMARKS OF SENATOR HOLLINGS

Senator HOLLINGS. The committee will come to order.

We will start right on time because we have a vote at 11 o'clock, and the Budget Committee is marking up the budget resolution at 10:30.

The majority of this committee is on the Budget Committee, including me.

This morning the subcommittee will review those requests of the State Department for International Organizations and Conferences. These requests total $506 million, primarily for the U.S. assessed contributions to international organizations.

This is the subcommittee's first hearing devoted to this area in a number of years. The reason for scheduling this session will soon be apparent.

Over the last several years, there have been several major actions that have prompted the United States to reduce its payments and hence the operations of many of these organizations. The most significant event was the passage of the Kassebaum Amendment that reduced the U.S. contributions to many organizations from the assessed 25 percent to 20 percent. The purpose of the Kassebaum Amendment was to achieve reforms in both the UN structure and budget.

U.N. REFORM

Other events that have led to a financial crisis in these organizations include the Sundquist Amendment dealing with the practice of Eastern Bloc UN employees rebating their salaries to their governments and the reductions Congress made to the request for UNIFIL and otherwise to these accounts.

The U.S. arrearages on our assessments are approximately $200 million. Last December the United Nations developed a new policy of consensus in key committees, programs and coordination.

During this hearing, we will seek to find out how real the reforms are at the UN. There also seems to be an idea that the $470 million now requested for contributions to international organizations is to be increased $110 million due to the reforms, but we don't have such a request yet from the President.

Appearing on behalf of the Department of State is Ambassador Vernon Walters, U.S. Representative to the United Nations and Alan Keyes, the Assistant Secretary for International Organization Affairs. We also have Ambassador Elliot Richardson on behalf of the United Nations Association who will testify after the official witnesses.

Ambassador Walters, we welcome you and we will be glad to hear from you. Your statement in its entirety will be included in the record and you can deliver it or highlight it as you wish.

STATEMENT OF AMBASSADOR WALTERS

Ambassador WALTERS. It's not a terribly long one, Mr. Chairman. If I may, I'll read through it quite quickly.

When I was appointed as Permanent Representative to the United Nations, it was made clear to me that my instructions were to restore the United Nations and not to destroy it. I believe that we have made substantial gains in carrying out this mandate.

The United States achieved a major success at the 41st General Assembly by gaining approval of a major program of administrative and budgetary reform. I believe this momentum for reform in the United Nations deserves our strong support. The United States can and should continue to take a lead role in the world and this includes multilateral organizations.

In addition to the reform, we made progress in achieving United Nations support for other U.S. initiatives and policies during the last year.

For example, the General Assembly adopted resolutions demanding the withdrawal of foreign troops from Afghanistan and from Cambodia; endorsing U.S. disarmament initiatives on chemical weapons and compliance with arms control agreements, criticizing the human rights situation in Afghanistan and Iran, endorsing a U.S. initiative on entrepreneurship, implicitly endorsing the U.S. approach to Third World debt, drawing attention to the heavy locust infestation in Africa and endorsing the right to own property.

We were also successful in eliminating many of the phrases which criticized the United States by name.

On the negative side, the 41st General Assembly adopted resolutions condemning the U.S. retaliatory air strike against Libya, calling for U.S. compliance with the International Court of Justice decision on Nicaragua and requesting that the United States lift its trade embargo against Nicaragua and increasing the 1987 budget by $48.5 million, mainly because of exchange rate losses.

The General Assembly's adoption of reform measures is a crucial development, especially the implementation of the new budget approval process requiring consensus decision making in the setting of the budget level. This gives the major donors a much greater say in how the United Nations spends their money. The new budget process addresses the fundamental concern of the Congress about the imbalance between the major contributor minority and the voting majority by assuring that budgetary decisions cannot be made in simple disregard of the views of the major donor states.

The reforms also include substantial cuts in the United Nations personnel, tightened control over UN meetings, reorganization of the Secretariat and intergovernmental bodies, reductions in staff, travel and the use of consultants, plus tighter personnel management.

The Secretary-General moved immediately to begin implementing these reforms as soon as they were adopted last December 19.

The staff reductions are already halfway toward the target of a 15 per cent reduction by the end of 1989, and the Secretary-General has cut 9 senior level posts of Under Secretary-Generals or Assistant Secretary-Generals. Almost two-thirds of the 25 percent reduction required in such posts over the 3-year period.

The Secretary-General has also implemented major reorganizations and consolidations in the political and administrative departments. He has been asked and plans to take similar actions regarding the economic/social and public information departments in the coming months.

REFORMS

The reforms adopted by the 41st General Assembly will put the United Nations on a firmer management footing to serve better the interests of the member states. The implementation of these reforms is now in the interest of all member states.

The reforms respond particularly to the concerns expressed by the United States over the past years involving wasteful spending and the inability of major donors to control such spending. We must now demonstrate our support for the reform efforts and for the United Nations by fulfilling our obligation to pay our assessed contributions, or risk having reform set aside.

The first step is to modify the Kassebaum/Solomon Amendment, which currently limits our payment to 20 percent of the UN budget, rather than our assessed share of 25 percent. As I stated earlier, the new procedures adopted by the General Assembly address the clear intent

of that legislation—that major donors have a greater say in how the United Nation spends their money.

It would, however, be premature to remove entirely the restrictions imposed by the Kassebaum/Solomon Amendment because the new process has not yet had time to work. Therefore, the administration has submitted a proposed modification of the legislation to permit the payment of our regular assessment to the United Nations, subject to annual certification by the President that the reforms enacted at the last General Assembly session are being implemented adequately.

The other necessary step is to assure that needed funding is available. The President's 1988 budget was prepared prior to the enactment of that reform by the 41st General Assembly. Therefore, it is not based on the results of the reform or the proposed modification of the Kassebaum/ Solomon Amendment.

The administration is committed to seek the additional funding that will be required to bring our fiscal year 1988 payment to the United Nations back up to its normal level. We are not examining the reductions that would be used to offset the required increase.

I would hope that, once required offsets are identified, the committee will agree with the need to indicate the continued importance that the United States attaches to the United Nations, and with our support for the significant steps taken toward administrative and budgetary reform by providing the full amount requested by the administration. In my judgment, it is clearly in our Nation's interest to do so.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Walters follows:]

PREPARED STATEMENT OF AMBASSADOR VERNON A. WALTERS

UNITED STATES PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

Mr. Chairman, the United States achieved a major success at the 41st General Assembly by gaining approval of a major program of administrative and budgetary reform. This success marked the beginning of an effort which holds the promise of restoring the original ideals of the United Nations—goals which are enshrined in the UN Charter and which have commanded the respect and active participation of the United States for decades. I believe that this momentum for reform in the United Nations deserves our strong support. The United States can and should continue to take a lead role in the world and this includes multilateral organizations.

In addition to progress on reform, we made progress in achieving United Nations support for other U.S. initiatives and policies during the last year.

For example, the General Assembly, by overwhelming majorities, adopted resolutions demanding the withdrawal of foreign troops from Afghanistan and from Cambodia. The General Assembly also adopted, by consensus, U.S. disarmament initiatives on chemical weapons and compliance with arms control agreements.

In the human rights field, the General Assembly adopted resolutions criticizing the human rights situation in Afghanistan and Iran by greater majorities and, for the first time, the GA adopted balanced resolutions on human rights in El Salvador and Guatemala. Although the General Assembly decided to take no action on the U.S. initiative on human rights in Cuba, the just-concluded meeting of the Human Rights Commission focused considerable attention on this issue.

In a significant departure from previous practice, the 41st General Assembly adopted the resolutions on economic issues which reflected U.S. policies: A U.S. initiative endorsing enterpreneurship and a resolution on Third World debt implicitly endorsing the

U.S. approach to this problem. A U.S.-sponsored resolution drawing attention to the heavy locust infestation in Africa won consensus support as well. Another U.S. initiative, a resolution endorsing the right to own property, was adopted by a very large majority with no opposing votes.

The General Assembly adopted a number of other resolutions by consensus that were of particular importance to the United States, including resolutions on the protection of diplomats and narcotics control.

We were also successful in obtaining the deletion from resolutions on Namibia and apartheid of 12 of 15 phrases which criticized the United States by name.

There were increases in the level of voting coincidence between the United States and all the major regional groupings except ASEAN and Warsaw Pact, but the overall voting coincidence with the United States remained at a low level.

On the negative side, the 41st General Assembly adopted a Libyan initiative condemning the U.S. retaliatory air strike against Libya. The General Assembly also adopted resolutions calling for U.S. compliance with the International Court of Justice decision on Nicaragua and requesting that the U.S. lift its trade embargo against Nicaragua. Over U.S. objections, as well as those of most of the other major donors, and in spite of the financial crisis, the General Assembly also approved a budget increase of $48.5 million for 1987.

In the Security Council last year, we were able to pursue negotiations which led to the adoption of resolutions which helped provide a sound basis for dealing with regional conflicts. For example, Resolution 582 provided a balanced and comprehensive statement for a solution to the Iran/Iraq war, establishing a framework for future efforts. Other negotiations led to the adoption of resolutions which maintained the UN Interim Force in Lebanon. The Security Council has continued to focus attention on terrorism and issued a condemnatory statement in response to the September hijacking of a Pan Am aircraft in Karachi. The Secretary-General issued his own condemnation of this incident as well as the terrorist attack on the synagogue in Istanbul.

Most important of all, however, is the General Assembly's adoption of recommendations to reform and improve the functioning of the Organization. To put it very briefly, intense effort by the United States and many other nations of Europe, Asia, Africa, and the Americas, as well as by Secretary-General Perez de Cuellar, has launched a rigorous program of reform of the UN budgetary process as well as economy in personnel and expenditures.

First and foremost, the reform includes the implementation of a new budget approval process. The new process requires consensus in the setting of the budget level and thus gives major donors such as the United States a much greater say in how the United Nations spends their money.

UN annual expenditures have more than doubled since 1977, from $411 million to $872 million approved for 1987. Our annual assessments have increased accordingly from $99.4 million in 1977 to $208.9 million in 1987. In recent years, partially in respose to concerns expressed by the United States and other major donors, the rate of growth has slowed somewhat. We plan to use the new budget approval process systematically to nationalize expenditure and adjust the rate of growth of UN spending to the availability of resources.

The new budget process will also force member states to weigh relative priorities before funding new programs. In the past, the frequent authorization by the General Assembly of additional appropriations, such as new conference centers, special sessions, and other additional meetings, new programs and personnel, et cetera, added on an average of $75 million to each biennial budget since 1973.

According to the new process, the Secretary-General will present a draft budget outline for the biennial budget to the Committee for Program and Coordination [CPC] in the year preceding the presentation of the draft budget to the General Assembly for approval. The draft budget outline will contain a budget ceiling, an indication of program priorities, and a contingency fund to protect the integrity of the budget from constant add-ons.

The need for these constant add-ons to fund additional mandates has been a frequent cause of U.S. dissatisfaction. The contingency fund will now serve to finance decisions adopted during the course of a biennium, eliminating the need for add-ons.

Limiting the size of the contingency fund will force tradeoffs with existing or proposed lower priority programs when new activities require financing. This exercise will concentrate needed attention on priority setting by member states. The Secretary-General will include a contingency fund in the 1988–89 budget when he presents it to the CPC this spring, implementing immediately this important element of the new budget process.

The CPC's mandate has been strengthened so that it may undertake these important new responsibilities in considering the Secretary-General's budget outline and submitting its conclusions and recommendations to the General Assembly. The CPC operates on a consensus basis, making its recommendations a clear indication of member states' instructions to the Secretary General for the formulation of his draft budget. The United States plans to take an active role in the deliberations of CPC. We will be reviewing the numerous UN programs and formulating proposals aimed at insuring the most economical and efficient use of future budget resources.

I believe that this new procedure addresses the fundamental concerns of the Congress about the imbalance between the major-contributor minority and the voting majority. The consensus-based budgeting system, when implemented, will restore the balance and assure that budgetary decisions cannot be made in simple disregrd of the views of major donor states.

The reforms adopted by the General Assembly in December go beyond the establishment of the consensus-decision budget process. Since the UN was established in 1946, the staff has grown from 1,540 to 10,972 today. Personnel costs, looked at as an object of expenditure, represents approximately 75 percent of the budget. Staffing levels will be reduced by 15 percent over the next 3 years. Senior staff levels, plagued by overlapping responsibilities and ineffective management in recent years, will be cut by 25 percent. These personnel cuts will substantially reduce the costs of operating the Organization.

The reform will tighten control over UN meetings and conferences, which have proliferated at considerable expense to the United States and other member states, and whose costs, including staffing, represent over one-third of the UN budget. The meetings will thus give greater value, in terms of output, for the money spent.

UN departments and offices have grown over the years, along with numbers of personnel. As of December, there were 9 political and 11 economic and social departments, centers, or offices, plus 5 regional economic commissions. Together, these units dispose of almost half of the current budget. In accordance with several reform measures, the Secretary-General plans an extensive reorganization of the Secretariat, and member states are reviewing the structure of the intergovernmental bodies. These efforts should greatly reduce duplication and waste and result in further cuts in personnel while ensuring a more efficient functioning of the Organization. Increased efficiency should be reflected in decreased costs.

The reform provides for a wide range of additional economies, including reductions in staff travel and the use of consultants, plus tighter personnel management, which are intended to increase productivity while improving staff morale. Cuts in travel and consultants should save about $5 million annually. The effects of increased productivity are hard to quantify.

I am pleased to say that the Secretary-General moved immediately to begin implementing these reforms when they were adopted last December 19. Their effects are to be appropriately reflected in the 1988–89 biennial budget when the General Assembly adopts the budget at its 42d session. The staff reduction is already halfway toward the target of a 15-percent cut by the end of 1989, thanks to a hiring freeze in effect for the past year. In addition, the Secretary-General has reduced the number of senior-level posts by nine, which represents almost two-thirds of the 25-percent reduction required in such posts over the 3-year period.

In February, the Economic and Social Council established a special commission to supervise the largest of the reorganization studies mandated by the reform—a review of the intergovernmental bodies under its purview, some 200 in all. The Commission began its work on March 2. The study will take 18 months to complete and it is expected to result in a more rational structure for economic and social bodies within the United Nations system.

The Secretary-General has also implemented major reorganization and consolidation in the political and administrative departments, and he has announced his plan to take similar actions regarding the economic/social and public information departments in the coming months. These restructurings are producing further reductions in staffing as well as more national and efficient organization for the UN Secretariat.

We in the administration believe that the reforms adopted by the 41st General Assembly, those that have been implemented together with those still to be implemented, will put the United Nations on a firmer management footing. Thus, the Organization can better serve the interests of its member states. The rigorous implementation of the reforms, therefore, is in the interest of all member states of the United Nations.

The reforms respond particularly to the concerns expressed by the United States over the past years involving wasteful spending and the inability of major donors to control such spending. We must now demonstrate our support for the reform effort and for the United Nations by fulfilling our obligation to pay our assessed contributions.

Behind all the inflated rhetoric surrounding UN reform is the fact that the United States, the UN's principal contributor and main supporter for 40 years, was dissatisfied enough with what was happening to hold back half of its contribution last year. It is equally clear that, if the United States does not demonstrate its support for those reforms by moving to restore the reductions, the full implementation of the administrative and budgetary reforms that were achieved after a great deal of effort on all sides may be compromised. If we believe that the UN is worth keeping, then we must work actively to ensure that these reforms are implemented.

The first step toward resuming our normal payment pattern is to modify the Kassebaum/Solomon amendment, which currently limits our payment to 20 percent of the UN budget, rather than allowing us to meet our assessed share of 25 percent. We believe, as I stated earlier, that the new procedures adopted by the General Assembly constitute a first concrete step toward reform and address the clear intent of that legislation—that major donors have a greater say in how the UN spends their money.

It would, however, be premature to remove entirely the restrictions imposed by Kassebaum/Solomon because the new process has not yet had time to work. Therefore, the administration has submitted a proposed modification of the legislation to permit payment of our regular assessment to the UN, subject to annual certification by the President that the reforms enacted at the 41st General Assembly session are being implemented adequately. This will provide the UN with a strong incentive to implement the reforms faithfully.

The other necessary step is to assure that needed funding is available. The President's 1988 budget was prepared prior to the enactment of the reform by the 41st General Assembly. Therefore, it is not based on the results of the reform or the proposed modification of the Kassebaum/Solomon amendment.

The administration is committed to seek the additional funding that will be required to bring our fiscal year 1988 payment to the United Nations back up to normal levels. Conscious of the need to remain within the constraints imposed by the Gramm/Rudman/Hollings Act, we in the executive branch are now examining the reductions that would be needed to offset the required increase.

I would hope that, once required offsets are identified, this committee will agree with the need to indicate the continued importance that the United States attaches to the United Nations, and with our support for the significant steps taken toward administrative and budgetary reform, by providing the full amount requested by the administration. In my judgment, it is clearly in our nation's interest to do so.

Thank you, Mr. Chairman.

ALAN L. KEYES, ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS

GENERAL STATEMENT

Senator HOLLINGS. Now we will hear from Assistant Secretary Keyes.

Mr. KEYES. Thank you, Mr. Chairman.

I would simply request that the written remarks that have been submitted be entered, in full, in the record.

Senator HOLLINGS. Your prepared statement will be included in full.

Mr. KEYES. I should indicate that I concur heartily with the remarks that have been made by General Walters.

I think when we consider the requests that we had made to the United Nations and the money that we will seek to bring our contributions up to their full assessed levels, it's important to ask ourselves just what it is that we are paying for.

I think there is a misunderstanding that tries to make it appear that what we are doing is somehow simply giving away money to the United Nations that has no effect on the interest of the United States. In fact, I think if you look at the record over the last several years, we have worked very hard to improve the U.S. position in the United Nations with the kinds of results that Ambassador Walters has detailed. We have succeeded, I think, in achieving a reform at the last General Assembly which is not just a one-time improvement, but which is a basic structural change in the way that the organization functions and which will permanently enhance the influence of the United States.

During the course of the next year or two, we are going to be working to make sure that change is implemented, to consolidate the improvement that we have achieved in our position.

If, at this critical stage, in the opening of this new process, we do not contribute to the United Nations in a way that is commensurate with the interest that we have in the success of this process, then we will not just be throwing away a success achieved this year, we'll be throwing away an increase in our influence which we would have for a long time to come.

So, we think that it's very important that, having done the work necessary with the cooperation and encouragement of the Congress to improve our position, we do now what is necessary to back up this improvement in U. S. influence and make it stick.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Keyes follows:]

PREPARED STATEMENT OF ALAN L. KEYES

ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL AFFAIRS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY IN SUPPORT OF OUR FISCAL YEAR 1988 REQUEST TOTALLING $470,000,000 FOR CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS. LAST SPRING, IN MY FIRST APPEARANCE BEFORE THIS COMMITTEE, I INDICATED THAT WE WOULD SEEK GREATER DONOR INFLUENCE AT KEY POINTS IN THE PROGRAM BUDGET DECISION MAKING PROCESS AND INSIST THAT EVERY STAGE OF THIS PROCESS BE MADE MORE TRANSPARENT SINCE THE AVAILABILITY OF THIS INFORMATION IS CRUCIAL TO THE EXERCISE OF DONOR INFLUENCE. IF WE WERE SUCCESSFUL IN CHANGING THE PROGRAM BUDGET DECISION-MAKING PROCEDURE SO THAT COSTS WERE TAKEN INTO ACCOUNT WHEN ESTABLISHING PRIORITIES AND SELECTING PROGRAMS, WE COULD FORCE ORGANIZATIONS TO CHOOSE BETWEEN COMPETING PRIORITIES.

SINCE THEN, THE UNITED NATIONS GENERAL ASSEMBLY HAS ADOPTED A SIGNIFICANT REFORM PACKAGE, ONE THAT COULD MEASURABLY INCREASE THE INFLUENCE OF MAJOR CONTRIBUTORS SUCH AS THE UNITED STATES OVER THE BUDGET AND MANAGEMENT OF THE UNITED NATIONS ORGANIZATION. OF COURSE, THE REAL PROOF OF REFORM WILL BE IN THE IMPLEMENTATION. JUST AS WE PLEDGED LAST YEAR TO DO OUR UTMOST TO ACHIEVE NECESSARY REFORMS, WE PLEDGE NOW TO CONTINUE OUR EFFORTS TO ASSURE THAT THEY WILL BE EFFECTIVELY CARRIED OUT.

NOTHING WE HAVE DONE, HOWEVER, WOULD HAVE BEEN POSSIBLE WITHOUT THE SERIOUS, INFORMED CONCERN AND SUPPORT OF THE CONGRESS -- NOTHING WE HAVE DONE AND NOTHING WE HOPE TO DO. IN THE CLOSING DAYS OF THE 41ST UN GENERAL ASSEMBLY WE ACHIEVED A

MAJOR FOREIGN POLICY ACCOMPLISHMENT. THE ADMINISTRATION, WITH THE SUPPORT OF THE CONGRESS, SUCCEEDED IN HAVING THE UN TAKE WHAT THE PRESIDENT HAS DESCRIBED AS "AN HISTORIC STEP TO ADOPT SWEEPING REFORMS OF ITS ORGANIZATION AND METHODS OF OPERATION...DESIGNED TO STRENGTHEN THE ORGANIZATION'S EFFECTIVENESS AND EFFICIENCY IN CARRYING OUT ITS IMPORTANT POLITICAL, ECONOMIC AND SOCIAL OBJECTIVES." ADOPTION OF THESE REFORMS REPRESENTS THE CULMINATION OF SIX YEARS OF SERIOUS EFFORT, WHICH WOULD NOT HAVE BEEN POSSIBLE WITHOUT CONGRESSIONAL ASSISTANCE.

DURING ITS PRESENT SESSION, THE U.S. CONGRESS FACES CRITICAL DECISIONS THAT WILL DETERMINE THE UNITED STATES ABILITY TO BUILD UPON THESE IMPROVEMENTS. UNDERSTANDABLY, CONGRESSIONAL SKEPTICISM ABOUT THE SIGNIFICANCE OF THE UN'S RECENT ACTIONS, COMPOUNDED BY YEARS OF CONSIDERABLE DISAPPOINTMENT IN THE ORGANIZATION'S FORMANCE, RUNS HIGH. IF WE DO NOT TAKE ADVANTAGE OF THE OPPORTUNITY THEY REPRESENT TO ADVANCE AMERICAN INTERESTS, WE RISK THROWING AWAY THE RESULTS OF SIX YEARS OF INTENSE U.S. EFFORT CULMINATED BY A SUCCESS THAT COULD NOT HAVE BEEN ACHIEVED WITHOUT CONGRESSIONAL INTEREST, LEADERSHIP AND ACTION.

THERE IS LITTLE NEED TO REVIEW IN DETAIL THE SITUATION THAT GAVE RISE TO THE UN'S REFORM CRISIS. FROM AN AMERICAN VIEWPOINT, THE CRISIS HAD TWO DISTINCT BUT RELATED ASPECTS. THE HOSTILITY TO FREE DEMOCRATIC VALUES, PRINCIPLES AND POLICIES EXPRESSED WITH INCREASING FREQUENCY IN UN RESOLUTIONS AROUSED RESENTMENT AND INDIGNATION AMONG THE AMERICAN PUBLIC AND IN THE U.S. CONGRESS. ADDED TO THIS WAS A GROWING PERCEPTION OF WASTE, MISMANAGEMENT AND INEFFICIENCY IN THE OPERATION OF THE UN BUREAUCRACY. THE FIRST DRAMATICALLY ERODED THE TOLERANCE TRADITIONALLY ACCORDED THE SECOND. AS THE U.S. GOVERNMENT'S GENERAL BUDGETARY CRISIS INTENSIFIED, PRESSURE TO

CUT BACK THE AMERICAN CONTRIBUTION TO THE UN BECAME VIRTUALLY IRRESISTABLE.

AT FIRST, CONGRESSIONAL REACTION TO THIS PRESSURE TOOK THE FORM OF CUTBACKS TARGETTED AGAINST ACTIVITIES CONGRESS DEEMED CONTRARY TO THE UN CHARTER OR DAMAGING TO U.S. INTERESTS (FOR INSTANCE, SUPPORT OF ORGANIZATIONS SUCH AS THE PLO THAT PRACTICE OR ABET TERRORISM). IN THE FALL OF 1985, HOWEVER, THE CONGRESS PASSED LEGISLATION THAT REQUIRED A 20% ACROSS-THE-BOARD CUT IN THE ASSESSED U.S. CONTRIBUTION TO THE UNITED NATIONS UNLESS THE UN SYSTEM ADOPTED DECISION-MAKING PROCEDURES ON BUDGETARY MATTERS THAT APPORTIONED VOTES ACCORDING TO THE SIZE OF A COUNTRY'S ASSESSED CONTRIBUTION.

THE U.S. GOVERNMENT OFFICIALS WHO RESPONDED TO THE CONGRESSIONAL MANDATE REALIZED THAT CONGRESS HAD IDENTIFIED PERHAPS THE FUNDAMENTAL CAUSE OF BOTH THE UN'S MISMANAGEMENT AND ITS POLITICAL BIAS. THE COUNTRIES WHO CONTRIBUTED THE BULK OF THE UN'S RESOURCES COULD BE EASILY OVERRULED BY A NUMERICALLY SUPERIOR BLOC THAT PAID FOR LESS THAN 2% OF THE UN'S WORK. THE VOTING MAJORITY COULD IGNORE THE INTERESTS AND SENSITIVITIES OF MAJOR CONTRIBUTORS IN ORDER TO PURSUE THE POLITICAL VENDETTAS OF ONE OR ANOTHER OF THE MAJORITY OF THE INFLUENTIAL VOTING BLOCS. THE RESULTS SHORTCHANGED THE UN'S ORIGINAL GOALS AND PURPOSES, DIVERTING TIME, MONEY AND HUMAN ENERGY TO INDULGE A DANGEROUS AND UNPRODUCTIVE PASSION FOR POLITICAL WARFARE. THE CONGRESSIONAL REQUIREMENT COMPELLED A SEARCH FOR SOME WAY TO ACHIEVE A MORE CONSTRUCTIVE EQUILIBRIUM BETWEEN CONTRIBUTORS AND THE VOTING MAJORITY.

LAST DECEMBER THE 41ST GENERAL ASSEMBLY OF THE UNITED NATIONS APPROVED A RESOLUTION (41-213) THAT SHOULD BE A CRITICAL TURNING POINT IN THE ORGANIZATION'S HISTORY. THE RESOLUTION PROVIDED FOR SPECIFIC CHANGES IN ADMINISTRATION AND

MANAGEMENT. IN ADDITION IT CONTAINED AGREEMENT ON A CONSENSUS BASED PROCEDURE FOR DECISIONS ON THE OVERALL SIZE AND GENERAL STRUCTURE OF THE UN BUDGET. AS A CONSEQUENCE OF THIS ACTION, THE UNITED STATES, LIKE OTHER MAJOR CONTRIBUTORS, STANDS TO GAIN INCREASED INFLUENCE OVER THE MANAGEMENT OF UN RESOURCES. IF PROPERLY IMPLEMENTED, IT WILL HAVE A SIGNIFICANT AND POSITIVE IMPACT ON THE UN POLITICAL SYSTEM. THE KEY FEATURE OF THE UN'S ACTION IS A BUDGET MECHANISM WHICH HAS BEEN DEVISED CONTAINING FOUR ESSENTIAL ELEMENTS:

--A BUDGET CEILING;

--AN INDICATION OF PROGRAM PRIORITIES;

--A PROVISION FOR A LIMITED CONTINGENCY FUND WHICH WILL PROTECT THE INTEGRITY OF THE BUDGET FROM CONSTANT ADD-ONS; AND

--MOST IMPORTANTLY, A CONSENSUS DECISION-MAKING PROCESS.

TO IMPLEMENT THESE FEATURES, THE MANDATE OF AN EXISTING COMMITTEE, THE COMMITTEE FOR PROGRAM AND COORDINATION, OR CPC, HAS BEEN STRENGTHENED SO THAT THE CPC MAY UNDERTAKE ITS IMPORTANT NEW RESPONSIBILITIES IN CONSIDERING THE SECRETARY GENERAL'S PROGRAM BUDGET OUTLINE AND SUBMITTING ITS CONCLUSIONS AND RECOMMENDATIONS TO THE GENERAL ASSEMBLY.

THE KASSEBAUM/SOLOMON LEGISLATION ADOPTED BY THE CONGRESS IN 1985, REQUIRED A CHANGE IN THE UN'S DECISION-MAKING PROCESS TO GIVE GREATER WEIGHT TO THE OPINIONS OF THE MAJOR CONTRIBUTORS. THE ESTABLISHMENT OF A CONSENSUS DECISION-MAKING PROCESS FOR UN BUDGETARY MATTERS RESPONDS DIRECTLY TO THAT REQUIREMENT. TO UNDERSTAND THIS, ONE MUST UNDERSTAND WHAT CONSENSUS IS, HOW IT AFFECTS THE UN POLITICAL PROCESS, AND HOW IT CREATES GREATER LEVERAGE FOR THE MAJOR CONTRIBUTORS.

THOUGH THE MANDATE IN THE GENERAL ASSEMBLY'S AGREEMENT TO

DECIDE BUDGETARY MATTERS BY CONSENSUS IS AN INNOVATION, THE PRACTICE HAS BEEN WIDELY USED IN UN BODIES AND ORGANIZATIONS FOR DEALING WITH OTHER ISSUES. WHILE NOT QUITE THE SAME AS UNANIMOUS CONSENT, CONSENSUS MEANS THAT DECISIONS ARE TAKEN WITHOUT A VOTE. THUS, IF ANY PARTY OBJECTS TO SOME LANGUAGE OR PROVISION STRONGLY ENOUGH TO DEMAND A VOTE, DISCUSSIONS MUST CONTINUE UNTIL A COMPROMISE IS REACHED. IN THE FINAL ANALYSIS, CONSENSUS MAY NOT MEAN THAT EVERYONE IS HAPPY WITH THE RESULT. IT SIMPLY MEANS THAT NEGOTIATIONS HAVE REACHED THE POINT AT WHICH NO STATE OR GROUP OF STATES FEELS STRONGLY ENOUGH TO BEAR THE POLITICAL COST OF CALLING FOR A VOTE, AND BEING IDENTIFIED AS THE CAUSE OF A DISRUPTIVE FAILURE.

THE ESTABLISHMENT OF A CONSENSUS BASED BUDGET DECISION-MAKING PROCESS HAS THE EFFECT OF REDUCING THE ABILITY OF THE NUMERICAL MAJORITY TO DICTATE DECISIONS ABOUT THE SIZE AND USE OF UN RESOURCES. IF THE RESORT TO MAJORITY POWER CANNOT SIMPLY BE ASSUMED, REAL COMPROMISE BECOMES ESSENTIAL. TRADE-OFFS MUST BE ACHIEVED BETWEEN MINORITY AND MAJORITY VIEWPOINTS, INVOLVING THE EXCHANGE AND MODIFICATION OF TANGIBLE INTERESTS. COSMETIC GESTURES, INTENDED MAINLY TO CAMOUFLAGE MINORITY CAPITULATION NO LONGER SUFFICE. WHERE THE MINORITY ACHIEVES A REASONABLE DEGREE OF COHESION, THE RESULT IS A MORE BALANCED POLITICAL DIALOGUE, IN WHICH BOTH THE MAJORITY AND THE INDIVIDUALS COMPOSING THE MINORITY ARE COMPELLED TO ACT MORE RESPONSIBLY. THE MAJORITY CANNOT PRETEND THAT THEY HAVE WON A VICTORY BY VOTING THROUGH MEANINGLESS RESOLUTIONS THAT LACK TANGIBLE BACKING FROM THE MAJOR CONTRIBUTORS. THE CHIEF CONTRIBUTORS CAN NO LONGER CAST MEANINGLESS "NO" VOTES THAT RELIEVE THEM OF RESPONSIBILITY FOR THE CONSEQUENCES OF A DECISION, WITHOUT IN ANY WAY PREVENTING IT FROM GOING INTO EFFECT.

THE GREATER NEED FOR COMPROMISE AND RESPONSIBILITY HAS

IMPORTANT IMPLICATIONS FOR THE OVERALL CHARACTER OF THE UN POLITICAL SYSTEM. WHERE MAJORITY COALITIONS NEED NOT BE DECISIVE IN DETERMINING OUTCOMES, BLOC POLITICS TENDS TO BE A LESS DOMINANT FACTOR. SINCE ANY MEMBER STATE, AND PARTICULARLY THE MORE SUBSTANTIAL ONES, CAN STALL OR PREVENT ACTION, THE ABILITY TO WORK WITH AND INFLUENCE INDIVIDUAL STATES BECOMES MORE IMPORTANT. IN PLACE OF THE MINDLESS POLITICS OF GROUP CONFORMITY, GREATER INDIVIDUAL CHOICE AND RESPONSIBILITY EMERGE.

THE DECISION-MAKING PROCESS ESTABLISHED BY THE 41ST GENERAL ASSEMBLY MAY HAVE AN ADDITIONAL EFFECT BEYOND THE GENERAL IMPACT OF THE CONSENSUS PRINCIPLE. IN THE FIRST INSTANCE, GENERAL AGREEMENT ON BUDGETARY DECISIONS WILL BE FORGED IN THE CPC. THIS IS A BODY OF LIMITED MEMBERSHIP. AT PRESENT 21 STATES PARTICIPATE. A CONSENSUS AGREEMENT FORGED AMONG THESE STATES WILL REPRESENT NOT ONLY A PAPER PROPOSAL, BUT A POLITICAL COALITION PLEDGED TO SUSTAIN THEIR CONSENSUS IN DISCUSSIONS WITH OTHER MEMBERS OF THE ORGANIZATION. SUCH A COALITION, COMPRISED OF MEMBERS FROM ALL THE REGIONAL AND IDEOLOGICAL GROUPINGS, WOULD BE A UNIQUE, NEW ELEMENT IN THE UN'S POLITICAL EQUATION. THE REVISED CPC'S MEMBERSHIP COULD REPRESENT A NEW LEADERSHIP GROUP, ABLE TO REACH AGREEMENT IN ITSELF ONLY THROUGH A WILLINGNESS TO EXERCISE JUDGMENT AND PERSUASION THAT TRANSCENDS THE DICTATES OF ANY AUTOMATIC BLOC ALLEGIANCE. IF THE NEW ARRANGEMENT WORKS, THEREFORE, IT COULD OCCASION THE EMERGENCE OF A LEADERSHIP SYSTEM IN THE UN, COUNTERACTING AND MODERATING THE CONTENTIOUS, PARALYZING EFFECTS OF THE BLOC SYSTEM.

THESE GENERAL EFFECTS OF THE INCREASED IMPORTANCE OF CONSENSUS DECISION-MAKING WOULD SURELY BENEFIT THE UNITED STATES. DURING THE DISCUSSION OF THE REFORM RESOLUTION SOME WENT FURTHER, EXPRESSING THE FEAR THAT THE CONSENSUS REQUIREMENT MEANS A VIRTUAL VETO FOR THE U.S. ONE SUPERFICIAL

RESPONSE TO THIS ARGUMENT IS THE OBSERVATION THAT SUCH A VETO WOULD BE IN THE HANDS OF THE SOVIET UNION, AS WELL AS ANY OTHER STATE OR GROUP OF STATES THAT PERSISTS IN AN INTRANSIGENT POSITION. BOTH THE FEAR EXPRESSED, AND THE ARGUMENT PURPORTING TO ALLAY IT, BETRAY COMPLETE INNOCENCE OF ANY REAL EXPERIENCE WITH THE UN SYSTEM. ANYONE WHO HAS PARTICIPATED IN A NEGOTIATION WHERE CONSENSUS IS THE PREVAILING RULE (DISCUSSIONS IN THE UN DEVELOPMENT PROGRAM'S GOVERNING COUNCIL, FOR INSTANCE) KNOWS THAT ENORMOUS PRESSURES BUILD UP AGAINST ANY SINGLE STATE OR SMALL GROUP OF STATES WHO PERSIST IN OBSTRUCTING AGREEMENT WHEN EVERYONE ELSE IS READY TO ACCEPT IT. A SUFFICIENTLY LARGE DISSENTING GROUP, OR A SMALL GROUP REPRESENTING LARGE INTERESTS (SUCH AS THE SMALL GROUP OF MAJOR DONORS TO UNDP), CAN COMPEL ATTENTION TO THEIR CONCERNS. ISOLATED RESISTANCE (EVEN FROM THE UNITED STATES OR THE SOVIET UNION) IS HARD TO SUSTAIN IN THE FACE OF POLITICAL PRESSURES, PARTICULARLY FROM FRIENDLY COUNTRIES WHOSE COOPERATION ONE WILL NEED IN THE FUTURE.

THUS, THE CONSENSUS PRINCIPLE MAY RESULT IN SITUATIONS WHERE A COUNTRY SUCH AS THE UNITED STATES WILL BE MANEUVERED INTO ACQUIESCING IN RESOLUTION OR PROJECTS THAT, IN A VOTING ENVIRONMENT, IT WOULD SIMPLY VOTE AGAINST. THE PURSUIT OF CONSENSUS CAN LEAD DELEGATIONS TO DEVELOP A MENTALITY THAT SEEKS AGREEMENT AT ALMOST ANY COST, THEREBY ERODING THE WILL TO DEFEND AND PROMOTE IMPORTANT NATIONAL INTERESTS OR PRINCIPLES. PAST EXPERIENCE SUGGESTS THAT THIS IS AN AFFLICTION THAT MORE EASILY INFECTS THE WESTERN OR DEVELOPED COUNTRIES. THEY TEND TO BE MUCH MORE SENSITIVE TO THE DISCOMFORT OF BEING PERCEIVED AS THE OBSTACLES TO AN AGREEMENT, EVEN THOUGH IT BE A BAD ONE.

CONSENSUS WILL NOT, THEREFORE, RESULT AUTOMATICALLY IN INCREASED INFLUENCE FOR THE MAJOR DONOR COUNTRIES. IT SIMPLY PROVIDES THEM THE OPPORTUNITY TO DEVELOP MORE INFLUENCE IF THEY

HAVE THE WILL AND SOPHISTICATION TO DO SO. WILL IS NEEDED IN ORDER TO RESIST THE PRESSURES FOR PREEMPTIVE CONCESSION; IN ORDER TO PUT FORWARD AND PERSIST IN TOUGH, HONEST POSITIONS; IN ORDER TO DISTINGUISH BETWEEN COSMETIC CAPITULATION AND CONSTRUCTIVE COMPROMISE. SOPHISTICATION IS NEEDED IN ORDER TO DEAL PRUDENTLY WITH THE COMPLEX POLITICAL INTERESTS AMONG THE OTHER MEMBER COUNTRIES OF THE UN. OFTEN, BEHIND THE FACADE OF OBSTREPEROUS GROUP SOLIDARITY, LIE TRUE INTERESTS NOT REFLECTED IN GROUP RHETORIC OR POSITIONS. THE PURSUIT OF CONSENSUS CAN FORCE THESE INTERESTS TO THE FORE, CREATING OPPORTUNITIES FOR AGREEMENT THWARTED BY THE CONTENTIOUS POSTURING THAT CHARACTERIZES BLOC POLITICS.

DURING THE PAST SEVERAL YEARS, U.S. DELEGATIONS TO THE VARIOUS UNITED NATIONS FORA HAVE PROVEN BEYOND DOUBT THAT THE UNITED STATES CAN EFFECTIVELY DEFEND AND PROMOTE ITS INTERESTS IN A CONSENSUS ENVIRONMENT. IT REQUIRES TOUGHNESS, ENERGETIC ACTIVITY, THE ABILITY TO ARTICULATE A CLEAR, UNCOMPROMISED U.S. POSITION, AND THE WILLINGNESS TO WORK CLOSELY WITH ANY WHO SEEK RESULTS THAT GO BEYOND POLITICAL VENDETTAS. ABOVE ALL, IT REQUIRES A WILLINGNESS TO STAND FIRM ABSOLUTELY IN THE FACE OF ONE-SIDED AGENDAS AND UNREASONABLE DEMANDS.

IN ADDITION TO THE LESSONS LEARNED IN THE PAST SEVERAL YEARS, THE NEW CONSENSUS BASED BUDGETING PROCESS OFFERS ADDITIONAL ADVANTAGES. BUDGETS NECESSARILY AFFECT THE BASIC DIRECTION AND CHARACTER OF AN ORGANIZATION. WHERE AGREEMENT ON THE SIZE AND PROGRAM PRIORITIES OF ITS BUDGET REQUIRES BROAD BASED ACQUIESCENCE, A GENERAL ATMOSPHERE OF UNFAIRNESS OR HOSTILITY TO ONE OR ANOTHER MEMBER OF AN ORGANIZATION CAN HARDLY PERSIST FOR LONG. AMONG THE TRADE-OFFS NEEDED TO SECURE BROAD AGREEMENT WILL SURELY BE SOME THAT AFFECT THE TONE, CONTENT AND DIRECTION TAKEN IN AREAS OF SENSITIVITY TO IMPORTANT PARTICIPANTS. IT IS VERY UNNATURAL FOR ANYONE TO

AGREE TO INCREASE THE WEIGHT OF THE STICK OTHERS USE TO BEAT HIM. SO IT WILL BE WITH THE SIZE AND EFFECTIVENESS OF THE UN BUDGET. FOR THE FIRST TIME IN THE ORGANIZATION'S HISTORY, THE UNITED STATES AND OTHER MAJOR CONTRIBUTORS WILL BE IN A POSITION TO EXCHANGE THEIR MONETARY CONTRIBUTIONS FOR CURRENCY USEABLE IN THE UN'S NOISY POLITICAL MARKET.

BEHIND WHATEVER GAINS THE OUTCOME OF THE 41ST GENERAL ASSEMBLY REPRESENTS, LIES THE STARK FACT THAT NOTHING WOULD HAVE BEEN ACCOMPLISHED ABSENT THE PRESSURE GENERATED BY CONGRESSIONALLY MANDATED CUTBACKS IN THE U.S. CONTRIBUTION TO THE UN. THANKS TO THIS PRESSURE, THE REFORM ISSUE DOMINATED THE GENERAL ASSEMBLY'S AGENDA. THANKS TO THIS PRESSURE, ALL RECOGNIZED THAT CREDIBLE RESULTS WERE ESSENTIAL. THANKS TO THIS PRESSURE, DELEGATIONS REACHED AN AGREEMENT INCORPORATING THE CONSENSUS PRINCIPLE. AS A RESULT OF THIS AGREEMENT, SOME BELIEVE THAT IT'S TIME TO TAKE THE PRESSURE OFF. OTHERS BELIEVE THAT MORE CUTS WILL KEEP THE PRESSURE UP. HAVING BUILT UP A HEAD OF STEAM AND GOTTEN THE WHEELS TO INCH THROUGH A SINGLE TURN, WE MUST EITHER SHUT THE BOILER DOWN OR BLOW THE ENGINE UP. OBVIOUSLY, NEITHER ALTERNATIVE MAKES MUCH SENSE.

EQUALLY OBVIOUS, HOWEVER, IS THE FACT THAT THE AGREEMENT ACHIEVED UNDER PRESSURE AT THE 41ST GENERAL ASSEMBLY PROBABLY WON'T BE IMPLEMENTED EFFECTIVELY UNLESS SOME KIND OF INCENTIVE OPERATES ON THE UN SECRETARIAT AND THE OTHER MEMBER STATES. HOW TO DEVELOP AND STRUCTURE SUCH AN INCENTIVE IS THE CRITICAL ISSUE THE U.S. CONGRESS FACES THIS YEAR WITH REGARD TO U.S. PARTICIPATION IN THE UNITED NATIONS.

THE REAL PROOF OF REFORM WILL BE IN THE IMPLEMENTATION. THAT IMPLEMENTATION WILL REQUIRE GOOD FAITH EFFORTS ON THE PART OF THE SECRETARIAT AND THE OTHER MEMBER STATES. IT WILL ALSO REQUIRE RENEWED CONSISTENCY IN THE FINANCIAL SUPPORT PROVIDED

TO THE ORGANIZATION, COMMENSURATE WITH THE RESULTS ACHIEVED THROUGH THE REFORMED PROGRAM BUDGETING PROCESS. AS WE MOVE THROUGH THAT PROCESS THIS YEAR, WE WILL KEEP YOU AND OTHER MEMBERS OF THE COMMITTEE UP-TO-DATE ON THE IMPLEMENTATION OF THE REFORM PACKAGE.

MR. CHAIRMAN, WE BELIEVE THE AGREEMENT REACHED IN THE UNGA TO USE CONSENSUS IN DETERMINING THE UN BUDGET LEVEL AND PROGRAM PRIORITIES MORE THAN MEETS THE UNDERLYING INTENT OF THE KASSEBAUM-SOLOMON AMENDMENT FOR THE UN. THE REQUIREMENT FOR CONSENSUS ASSURES THAT THE VIEWS OF THE UNITED STATES AND OTHER MAJOR CONTRIBUTORS SHOULD NOW BE ADEQUATELY REFLECTED IN DECISIONS ON UN PROGRAM BUDGET ISSUES.

OUR EFFORTS TO ACHIEVE NECESSARY REFORMS FOCUSED ON THE UN SINCE THE SPECIALIZED AGENCIES HAVE NOT CAUSED FOR US BUDGETARY PROBLEMS TO THE SAME EXTENT AS THE CENTRAL UN. HOWEVER, THE KASSEBAUM-SOLOMON AMENDMENT APPLIED TO THE UN SPECIALIZED AGENCIES AS WELL. FOLLOWING THE LINES OF THE REFORMS ADOPTED BY THE UN, WE INTEND TO EXPLORE WITHIN EACH OF THE AGENCIES THE POSSIBILITY OF ESTABLISHING A CONSENSUS PROCEDURE FOR KEY PROGRAM BUDGET DECISIONS.

EACH OF THE AFFECTED AGENCIES HAS ITS OWN CHARTER OR CONSTITUTION INDEPENDENT OF THE UN. AS SUCH, EACH HAS ITS OWN PROGRAM BUDGET APPROVAL PROCESS AND A DIFFERENT TIME FRAME FOR THE MAJOR MEETINGS DECIDING ON ITS PROGRAM BUDGET. WE ARE NOW WORKING WITH THE INDIVIDUAL SECRETARIATS IN ANTICIPATION OF UPCOMING AGENCY MEETINGS WHICH CAN BEST ADDRESS THE REFORM ISSUES. WE BELIEVE THE PROSPECT FOR ADOPTION OF SIMILAR PROCEDURES IS VERY GOOD.

MR. CHAIRMAN, CRITICAL TO THE SUCCESSFUL IMPLEMENTATION OF THE REFORM EFFORT IS THE NEED TO RESTORE U.S. ASSESSED

CONTRIBUTIONS TO THEIR PROPER LEVEL IN FY 1988. OUR BUDGET REQUEST FOR THE UN AND THE SPECIALIZED AGENCIES WAS PREPARED PRIOR TO UNGA APPROVAL OF THE REFORM MEASURES AND REFLECTS A SIGNIFICANT SHORTFALL IN OUR CONTRIBUTION LEVELS. THE DEPARTMENT'S FY 1988-89 AUTHORIZATION BILL INCLUDES A PROVISION TO AMEND THE KASSEBAUM-SOLOMON AMENDMENT TO TAKE ACCOUNT OF THESE REFORMS. THE AMENDMENT AUTHORIZES SUCH ADDITIONAL SUMS AS MAY BE NECESSARY TO RESTORE OUR CONTRIBUTIONS IN THE CONTEXT OF THE FY 1988 BUDGET. THESE MONIES WOULD BE RELEASED UPON PRESIDENTIAL CERTIFICATION THAT THE UN AND SPECIALIZED AGENCIES HAVE ADOPTED OR ARE MAKING SUBSTANTIAL PROGRESS IN ADOPTING, IMPROVED BUDGETARY DECISION-MAKING PROCEDURES AND ARE IMPLEMENTING THEM. ONCE APPROPRIATE OFFSETS ARE FOUND, WE PLAN TO SUBMIT AN FY 1988 BUDGET AMENDMENT FOR UP TO $111 MILLION TO RESTORE U.S. CONTRIBUTIONS TO THEIR PROPER LEVEL IN THE FY 1988 BUDGET.

MR. CHAIRMAN, I WILL NOW TURN TO THE SPECIFICS OF THE FY 1988 REQUEST WHICH IS BEFORE THIS COMMITTEE. AS YOU KNOW, U.S. ASSESSED CONTRIBUTIONS MAY BE GROUPED INTO FOUR GENERAL CATEGORIES:

UNITED NATIONS AND AFFILIATED AGENCIES.....	$305,810,000
INTER-AMERICAN ORGANIZATIONS.....	96,660,000
REGIONAL ORGANIZATIONS.....	55,780,000
OTHER INTERNATIONAL ORGANIZATIONS.....	11,750,000
TOTAL	$470,000,000

THE $305.8 MILLION REQUEST FOR THE UNITED NATIONS AND AFFILIATED AGENCIES AMOUNTS TO AN INCREASE OF $67.0 MILLION OVER FISCAL YEAR 1987.

THE 1988 REQUEST FOR THE INTER-AMERICAN ORGANIZATIONS REPRESENTS AN INCREASE OF $9.5 MILLION PRIMARILY ATTRIBUTABLE TO THE DISCONTINUATION OF A PLANNED ARREARAGE IN THE ORGANIZATION OF AMERICAN STATES AND MANDATORY PRICE INCREASES AND INFLATION IN THE PAN AMERICAN HEALTH ORGANIZATION.

FOR THE REGIONAL AND OTHER ORGANIZATIONS, THE FISCAL YEAR 1988 REQUEST IS $67.5 MILLION, WHICH REPRESENTS AN INCREASE OF $8.5 MILLION OVER FISCAL YEAR 1987. THE INCREASE IS LARGELY ATTRIBUTABLE TO INFLATION AND REESTABLISHING FULL FUNDING FOR FY 1988 REQUIREMENTS OVER FY 1987 APPROPRIATED LEVELS.

THIS CONCLUDES MY PREPARED STATEMENT. I WILL BE HAPPY, MR. CHAIRMAN, TO ANSWER ANY QUESTIONS YOU AND OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

DIPLOMATIC SECURITY

Senator HOLLINGS. Thank you—thank you both. You folks are making some progress. I would like to put you in charge of security. It's a disgrace, it's actually a disgrace.

Mr. Ambassador, do you know that you are equated with a KGB Agent?

Mr. KEYES. Well, in accord with most of the Soviet delegation in Washington, so I would assume that the percentage is——

Senator HOLLINGS. By our own Secretary of State. The question was asked, why did we have this liberal attitude of letting any and everybody come in who are known KGB agents working in intelligence work. He said, well, you know, they might consider Walters who used to be the Deputy Director there at the CIA. They didn't mention Vice President Bush and some of the others. Can you imagine such an approach?

Ambassador WALTERS. Well, I said once that, unfortunately I couldn't claim the title of a CIA agent. It requires a lot of courage and a lot of determination to be one and I was only the Deputy Director.

Senator HOLLINGS. I know what the CIA does. I had to investigate it way back in the 1950's.

Ambassador WALTERS. As long as it wasn't in the 1970's.

LOSS OF EMBASSY IN IRAN

Senator HOLLINGS. Well, it's now in the 1980's, and I'm on the Intelligence Committee. In all seriousness, what happens is the attitude, how do you change it? Can you help us? That's more important than this little dribble of money. I think maybe you're one of them that could help us.

I'll never forget being in Tehran in January of 1979, it was right after President Carter had had his New Years in Iran. That's when the ambassadors greet each other as part of diplomacy, and he spent New Years, you remember, in Iran, with the Shah.

We had Ambassador Sullivan in Tehran. Senators Ribicoff, Javits, Jackson, Stevens and myself were there and Ambassador Sullivan said there's nobody here but us chickens. We said, what about them over there. He said, no, don't worry about them.

There wasn't any demonstration, wasn't any discord, there wasn't anything, that was in January and the next month they seized him.

So we call up the Secretary of State, Secretary Vance and he's sitting right here and said, "Mr. Secretary, you can't create fortress America in every country around the world, you've got to have the Marine guards who will be able, at least, to hold them off an hour and a half or 2 hours to be able to destroy classified materials, cryptography and what you have and then depend on the in-country security, that's the best you can do, but at least have that done."

Oh yes, yes, yes, so by September a high school class, seized the embassy in 15 minutes. When we asked Secretary Vance about that, he said that anything we might do would be provocative and destabilizing. His guards really stopped them up there and everything.

MOSCOW SECURITY

It's an attitude, just take that Regional Security Officer in the Moscow Embassy. Talk about court martialing him, he ought to be reamed, run out. I don't know where else you can be a Regional Security Officer and have Marine guards running around escorting foreign nationals through and call yourself the Security Officer.

That whole attitude. You know, it's just like Viet Nam, nobody is responsible. It's just like the Challenger disaster, nobody is responsible. It's just like this Iran thing, the process was flawed. We're tired of hearing about the process being flawed.

Now we got the security breach and we're wondering whether young men of that age and immaturity who are active sexually, should be given this kind of temptation on a job. I never heard of such nonsense.

Ambassador WALTERS. If you can't stand temptation, you shouldn't be in government service.

Senator HOLLINGS. That's exactly right.

Ambassador WALTERS. There are too many temptations in government service of all kinds.

Senator HOLLINGS. Well, particularly in the security work. This is treason of the highest kind.

Ambassador WALTERS. The word has almost gone out of fashion unfortunately.

PAYMENTS TO INTERNATIONAL ORGANIZATIONS

Senator HOLLINGS. Yes, sir. Well, I'm going to help every way I can. You think the best way to do it is as the President submits it, to let him go forward, get the full amount and let him certify to the Congress that they have complied with these fiscal reforms, so we're getting our moneys worth for our 25 percent. Is that your testimony too, Mr. Secretary?

Mr. KEYES. Yes, Mr. Chairman. We'll be watching it closely, Mr. Chairman.

Senator HOLLINGS. Well, I like those improvements.

Mr. KEYES. You'll be hearing from us if there are any violations of that.

Senator HOLLINGS. That's the first time that this committee has heard of any improvements made. We congratulate you both.

Ambassador WALTERS. Mr. Chairman, the Soviet delegation is down from 275 to about 180 and we're going further.

One thing I would like to mention. You know we tend to think of KGB and RU as every Soviet citizen abroad being subject to co-option by his country's intelligence system.

Senator HOLLINGS. Sure they are. Every one of them.

Ambassador WALTERS. Every one of them.

Senator HOLLINGS. There's no doubt about it. And, in that regard, we just may as well not have the embassy. They'll have a hard time getting in that new embassy building, I'll tell you that.

How about just having everybody meet out there at Gorky Park, Secretary Richardson? If we can't keep it secure let them have an embassy in Gorky Park, and have open government, or government in the sunshine in Moscow.

Ambassador WALTERS. They have probably got parabolic microphones in the trees at Gorky Park.

U.N. BUDGET

Senator HOLLINGS. Exactly, that's what I mean, so we might as well not act as though there was any security.

Now, on November 10, Mr. Secretary—Under Secretary Spiers sent us a letter of the allocations for 1987 and he said, in short, in your briefing that the United Nations only got a $100 million from the $385 million appropriate for 1987. Why does the chart on Page C, K and 3 show a $142,055,000. Are you familiar with that?

Mr. KEYES. The $142 million that's shown in that 1987 estimate is inclusive of the amount for the UN which is part of the $79 million total withholding for the Kassebaum-Solomon Amendment shown as a single line item lower in the table.

When you deduct the UN share of the Kassebaum-Solomon Amendment, that brings it down to the $100 million level.

DEFERRAL OF OUTLAYS

Senator HOLLINGS. All right, so $130 million of that was deferred from outlay. The House has repealed that deferral, but if we continue it, what is the impact on the United Nations and the specialized and regional organizations?

Mr. KEYES. Well, the impact of the $130 million outlay freeze last year was extremely damaging. We made our best efforts to make sure that we allocated that deferral in such a way as not to completely stop the operations of any given organization, but that required a lot of work to get a handle on the cash flow situation, the availability of reserves, the borrowing authority, which some of the organizations have and some of them don't.

It was quite clear from our efforts last year that during the course of these difficult budget times, a lot of the organizations have used up their available reserves. If they are hit with another one of these outlay deferrals this year, I think we will be unable to find organizations that are not severely impacted by that. I think that to do so again, this year, would probably mean that some of the organizations are going to have to risk not being able to perform their functions at all because such a renewed deferral would be in addition to cuts which we already had to allocate last year. Even the best of these organizations, WHO, only got about 70 percent of our assessed contribution last year.

You then had to slap on the deferral of a good part of that sum, more than half in a lot of cases, in the case of FAO, almost all, until the beginning of the next fiscal year. I don't think that they can do it again. I don't think that they can take it again. I don't think that there's any way that I could responsibly administer such a cut again.

Senator HOLLINGS. That sounds like my CPA trying to explain how tax reform impacts on my tax return.

BUDGET AMENDMENT

Now back to the Kassebaum Amendment, this $110 million that's got to be added to the amount for international organizations, has not been submitted in accordance with the recommendation, namely that we go ahead with the full amount on the certification to the Congress. If you don't get that $110 million, then you will have to take it from some other sections of your International Organizztion's budget, is that right.

Mr. KEYES. Well, I don't know that we would be able to handle it that way. What we are seeking is $110 million—$111 million over and above the $470 million that was requested in the President's budget.

We did not originally request that amount because we had not yet achieved the reforms in the UN and justified the request. Our budget process was not in sync with the political process at the UN.

But, without those funds, we would obviously be in a situation where we would be allocating a shortfall. That $111 million is not just for the

UN. It is also for the specialized and other agencies—most all of whom would otherwise have to be cut.

CORRESPONDENCE

Senator HOLLINGS. The Subcommittee has received a letter from Ruth Tomer, President of the American Public Health Association with regard to the World Health Organization.

The letter will be printed in the record at this point.

[The letter of Ms. Romer follows:]

AMERICAN PUBLIC HEALTH ASSOCIATION
1015 Fifteenth Street, N.W., Washington, D.C. 20005 (202) 789-5600

1987 FEB 24 PM 12:28

RUTH ROEMER, J.D., President

February 18, 1987

The Honorable Ernest F. Hollings
Chairman, Subcommittee on State, Justice,
Commerce, the Judiciary
Senate Appropriations Committee
US Senate
S-146A Capitol
Washington, D.C. 20510

Dear Mr. Chairman:

Ninteen eighty-six marks the first time that the United States substantially scaled down its financial contribution to the very modest budget of World Health Organization (WHO). This budget reduction represents a significant retrenchment in the U.S. commitment to world health and threatens WHO's continuing existence.

APHA was dismayed at the action of Congress in reducing the U.S. contribution to the World Health Organization, by reason of the Kassebaum Amendment (Sec. 143 of P.L. 99-93) and the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act (P.L. 99-177). The cut in the WHO assessed contribution for fiscal year 1987 was $15.7 million. Therefore, WHO will only receive $46 million of the assessed amount of over $61 million. Additionally, $36 million of this total will be deferred until October 1, 1987.

The reduction in funding and the deferral of our contribution means that the U.S. is not meeting its treaty obligations and our commitment to the health needs of the world is threatened. Recent Congressional initiatives, such as those related to universal childhood immunization and control of the worldwide spread of AIDS, are in jeopardy.

Pan American Health Organization (PAHO), the regional office for the Americas has been exempted from the direct effects of the Kassebaum amendment, however, the indirect cuts in WHO funding will be passed onto PAHO in reduced funding along with the reductions stemming from the Gramm-Rudman-Hollings law.

WHO plays a pivotal role in communicating and energizing the world to act on health concerns. Members of Congress need to be aware of the benefits to the health of the United States and to the world of this remarkable organization. The United States saves $27 million every three months by reason of WHO's eradication of small pox in the world and saves more in one year than the total amount of the cut. The important activities which will be affected by this decrease are listed on the enclosed fact sheet.

In the 38 years since the World Health Organization was established in 1948, the United States has contributed important support to world health through WHO and, in turn, has benefited from WHO's remarkable accomplishments. The 158 Member States of WHO constitute a community of national governments devoted to the tenet of the WHO Constitution:

> The enjoyment of the highest attainable standards of health is one of the fundamental rights of every human being without distinction of race, religion, political belief, economic or social condition.

The Congress and the Administration must take the following steps to restore the previously agreed U.S. funding commitment to WHO:

- The deferral of $36 million until October 1987 must be reversed,
- $15.7 million must be appropriated in the FY87 supplemental appropriations bill to alleviate WHO's current fiscal crisis and fulfill the U.S. commitment and treaty obligations, and
- The Kassebaum amendment* must be repealed.

The consequences for program implementation are serious and reflect adversely on U.S. leadership in the field of international health.

The American Public Health Association strongly urges that the U.S. Government take prompt action on these steps to enable WHO to carry out its planned activities and programs.

Sincerely yours,

Ruth Roemer

Ruth Roemer, JD
President

Attachment

*The Kassebaum amendment limits U.S. contributions to the U.N. and its specialized agencies (WHO, Food and Agriculture Organization, International Civil Aviation Organization) to no more than twenty percent of their assessed budgets unless those organizations adopt voting rights on budgetary matters proportionate to the contributions of each member country.

WORLD HEALTH ORGANIZATION

Major Activities

1. Immunization

In conjunction with UNICEF, WHO manages the Universal Childhood Immunization campaign intended to help every country achieve the goal of complete immunization of children by 1990. Developing countries are now using about 500,000,000 doses of six vaccines supplied by UNICEF in national immunization efforts supported by WHO. When the backlog of unimmunized children is eliminated in the next few years, the Expanded Program on immunization will reach 125,000,000 children each year with measles, polio, BCG, pertussis, tetanus, and diphtheria vaccine. Additionally, PAHO, the regional office for the Americas, is committed to eradication of polio in the hemisphere by 1990.

2. Vaccine Research and Development

WHO supports research to develop new vaccines. The incorporation of new vaccines in existing national immunization programs is the most cost-effective way to prevent disease. New genetically engineered vaccines that may incorporate many antigens in a single vaccine are being studied under WHO auspices.

Influenza surveillance by the WHO network helps develop the vaccine against each new strain that emerges.

3. Acquired Immune Deficiency Syndrome (AIDS)

WHO has taken the lead in AIDS surveillance, research, education and prevention. The disease is increasingly prevalent in parts of the world without resources to stop the epidemic. Only WHO can provide the help that allows countries to confront AIDS rather than hide from the facts.

4. Other Programs

WHO helps member countries with programs in the following areas:

Alcohol and Drug Abuse Prevention
Environmental Health, Drinking Water and Sanitation
Tuberculosis Control
Tropical Disease Research
Cardiovascular Disease
Diabetes
Cancer Research, Prevention, and Treatment
Family Planning
Information Dissemination

Major Accomplishments

1. Eradication of Smallpox

In 1980, the WHO Smallpox eradication program was declared a success. The benefits will be felt for many generations.

2. Universal Childhood immunization

The campaign, globally accepted and supported has already raised immunization rates to 60% in developing countries.

3. Oral Rehydration Therapy

WHO has successful introduced this inexpensive and very effective way to prevent death in children from diarrheal diseases.

4. Cost-effective Technology

The availability of a $35,000 basic radiologic system developed by WHO has made good x-ray services possible at a reasonable price.

Special Benefits to the U.S.

1. Smallpox Eradication

The U.S. contribution of $200,000,000 over 13 years to the WHO effort has been repaid many times over. The U.S. saves $108 million annually by obviating the need for smallpox vaccinations.

2. Disease Surveillance

Influenza surveillance is critical to vaccine development for the U.S. Information for travelers contributes to U.S.'s ability to protect U.S. citizens around the world.

3. Disaster Surveillance

WHO surveillance following the Chernobyl disaster helped protect Europe, and contributed information to plan for dealing with future accidents.

UN Association of the United States of America

ELLIOT L. RICHARDSON, CHAIRMAN, UNITED NATIONS ASSOCIATION OF THE UNITED STATES OF AMERICA

GENERAL STATEMENT

Senator Hollings. Secretary Richardson, would you like to submit your statement for the record and make your comments at this time, while these gentlemen are here at the table, we'll be glad to hear from you.

Mr. Richardson. I would be pleased to do that Mr. Chairman. I am sure from what I have already heard that the essentials of the story of UN reform has already been presented for the record by our permanent representative to the UN and the Assistant Secretary for International Organization Affairs and so I woule like simply to have my statement included in the record——

Senator Hollings. It will be.

Mr. Richardson [continuing]. And highlight a few points briefly.

I think a good place to begin is on page 4 of my statement. I would like to read straight through about a page and a half beginning with the last paragraph on page 4.

"The reform movement is clearly well underway at the UN. The question before us is how to keep it going. The answer to this lies in an understanding of the political dynamics which have carried us this far to date. Three points stand out:

"First, the pressures for improving the UN's functioning have been building for many years and have come from many quarters, not just from the U.S. and other major donors. The growing pragmatism of many third world states and their recognition that the confrontational tactics of the mid 1970's were counter productive have helped enormously in providing a fertile soil for sensible reform. The forthcoming stance of the Secretary General Perez de Cuellar illustrates this new approach.

"Second—there is no doubt that U.S. withholdings, as a one-time attention getter, did add a sense of urgency to the reform effort. The unilateral cuts, however, were a clear violation of American legal obligations under the UN Charter. As Secretary Shultz has emphasized, it is critical that the U.S. meet its current obligations and its arrearages to the UN so that it will no longer remain in violation of the Charter. It should also be recognized that this unilateral action, while initially serving as a catalyst in time also fanned widespread resentment of what many saw as high-handed U.S. financial pressure. Some countries favoring reform were put in an awkward position, since they did not want to appear to be succumbing to U.S. pressure tactics.

"Third, it was the introduction of a positive incentive, that the U.S. Administration would work very hard to persuade Congress to restore full funding if the reform package was approved by the General Assembly, that led to the ultimate agreement. As in so many bargaining situations, it was the combination of a carrot-and-stick approach that proved the most persuasive.

"The lessons are clear enough. If Congress refuses to provide close to full funding, and thus eliminates the carrot, then the momentum for further reform will be lost. The new consensus mechanism on UN budgeting would then begin its work in a sour atmosphere rather than in the spirit of accomodation which is essential for concensus building. American credibility is also at stake, especially since the President, the Secretary of State and the U.S. Permanent Representative have so enthusiastically embraced the new procedures and called for full funding. The UN has lived up to its end of the bargain and now it is time for the U.S. to come through on its end."

I think that passage, Mr. Chairman, contains the essence of what I would have to say and so I merely here to join in supporting the administration's position towards both the issue of reform and the relationship to that issue of the U.S. share of the UN budget.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Richardson follows:]

United Nations Association of the United States of America

TESTIMONY

by

ELLIOT L. RICHARDSON

CHAIRMAN, UNA-USA

Mr. Chairman, Members of the Committee:

I welcome this opportunity to speak to the Sub-Committee on the subject of United Nations reform and the very important progress made in that direction by the General Assembly and the Secretary General in recent months. My remarks will focus on three themes: the reforms themselves; the international political trends which have made the reform movement possible; and the pivotal role Congress can play in keeping the momentum for constructive change in the years ahead.

Based upon the report of a Group of 18 experts convened by the UN to examine the efficiency of its operations, on December 19 the General Assembly adopted a package of administrative and budgetary measures which represent a promising first step toward the goal of a revitalized and more effective United Nations. The centerpiece of this package is a revamped procedure for adopting budgetary decisions, based largely on the principle of consensus.

Under this new procedure, a 21-member body including the major donors, known as the Committee for Program and Coordination or CPC, would receive the Secretary General's budget proposals one year ahead of time. Acting by consensus, the CPC would agree on a budgetary ceiling, on a small contingency fund which would put a lid on add-ons after a budget is adopted, and on general program priorities. This advisory opinion would then be reviewed by the General Assembly and on the basis of the Assembly's decision the Secretary General would then implement the budget.

Mr. Chairman, this innovative mechanism represents a good faith effort by the UN's member states to meet the desire of the US and other major donors for a greater voice in UN budget decisions. Like any durable compromise, it offers something for both sides. For the developing countries, opposed to changes in the Charter principle of one nation one vote, the reform keeps at least formal power in the hands of the General Assembly. For the United States and the half dozen other developed countries that together pay two-thirds of the UN's bills, the attraction lies in the gatekeeper-like role which the CPC would exercise over the size and shape of UN budgets.

The new procedure offers great promise, but it is no panacea. The challenge now will be to make this process work. For it to live up to its full potential, several things have to happen.

--First, the members of the Committee should reject a least-common-denominator approach to consensus, in which every member has to agree on every item. For if the disagreement of a single member on non-essential items is allowed to bottle up the CPC, then it would be prevented from playing the role of responsible gatekeeper which is so badly needed. For the US this means jettisoning its past practice of virtually indiscriminate nay-saying on new programs and focusing instead on getting agreement on a responsible budget ceiling.

--Second, the Committee's developing country members must resist the temptation to resort to the numbers game in the General Assembly if they are unable to prevail by consensus in the CPC. To treat the consensus requirements cavalierly would simply invite renewed withholding.

--Third, for the new mechanism to work there will have to a much more substantive dialogue between the Secretariat and the member states. This will require the Secretary General's Office to take the kind of direct role in shaping and

proposing programs that most Secretary Generals have been reluctant to embrace.

Mr. Chairman, I said that the new procedure represents a good faith offer to meet US concerns without violating the UN Charter. I should add that it is one which has been endorsed by the President, the Secretary of State, the sponsors of the Kassebaum-Solomon amendment, and the House Foreign Affairs Committee.

In addition to this budgetary reform, the package adopted in December includes a wide range of economies and measures to rationalize UN operations. Among these are reductions of 25% in senior staff and 15% in professional posts over the next three years, the rescheduling of meetings of various bodies from an annual to a biennial basis, the adoption of a scrap and build principle requiring member states to eliminate at least one committee or inter-governmental body for each new one created, the adoption of a host-country-pays principle for future UN conferences, imposition of restrictions on consultants, overseas missions and travel reimbursements, and the elimination of the Offices for Operational and External Support Activities, for Secretariat Services for Economic and Social Matters and for Special Political Questions. Complementing these cost saving measures, efforts are underway to simplify the UN's complex system of intergovernmental bodies.

The Secretary General has moved ahead rapidly to implement the decisions of the Assembly. For example, the UN is already more than halfway toward the reductions in staff and senior level posts called for by 1989. In addition, on his own initiative the Secretary General has begun to reorganize the Secretariat to improve its efficiency. Among his first steps have been the consolidation of the secretariat for the Commissioner on Namibia into a redefined department that will deal with special political questions, trusteeship and interregional cooperation, consolidation of secretariat work related to maritime matters, and consolidation

of most of the servicing requirements for UN committees into the Department of General Assembly Affairs.

The reform movement is clearly well underway. The question before us is how to keep it going. The answer to this lies in an understanding of the political dynamics which have carried us this far to date. Three points stand out:

--First, the pressures for improving the UN's functioning have been building for many years and have come from many quarters, not just from the US and other major donors. The growing pragmatism of many third world states and their recognition that the confrontational tactics of the mid-1970's were counterproductive have helped enormously in providing a fertile soil for sensible reform. The forthcoming stance of Secretary General Perez de Cuellar illustrates this new approach.

--Second, there is no doubt that US withholdings, as a one-time attention getter, did add a sense of urgency to the reform effort. The unilateral cuts, however, were a clear violation of American legal obligations under the UN Charter. As Secretary Shultz has emphasized, it is critical that the US meet its current obligations and its arrearages to the UN so that it will no longer remain in violation of the Charter. It should also be recognized that this unilateral action, while initially serving as a catalyst, in time also fanned widespread resentment of what many saw as high-handed US financial pressure. Some countries favoring reform were put in an awkward position, since they did not want to appear to be succumbing to US pressure tactics.

--Third, it was the introduction of a positive incentive -- that the US Administration would work very hard to persuade Congress to restore full funding if the reform package was approved by the General Assembly -- that led to the ultimate agreement. As in so many bargaining situations, it was the

combination of a carrot-and-stick approach that proved most persuasive.

The lessons are clear enough. If Congress refuses to provide close to full funding -- and thus eliminates the carrot -- then the momentum for further reform will be lost. The new consensus mechanism on UN budgeting would then begin its work in a sour atmosphere, rather than in the spirit of accomodation which is essential for consensus building. American credibility is also at stake, especially since the President, the Secretary of State and the US Permanent Representative have so enthusiastically embraced the new procedures and called for full funding. The UN has lived up to its end of the bargain and now it is time for the US to come through on its end.

Mr. Chairman, the road to improving UN performance will not be an easy one, especially as we begin to turn our attention to its programs and priorities, as well as to its processes. But I strongly believe that we have little choice given the unforgiving logic of global interdependence. Despite their enormous political differences, all 159 members of the UN have a stake in making the system work. As they recognized in their agreement on the December 19th reform package, there is no alternative.

My work as Chairman of the United Nations Association of the USA (UNA-USA) has given me two additional reasons for renewed confidence that the effort will succeed. First, for the past year, I have had the privilege of chairing a diverse group of quite extraordinary people, from third world and western countries, brought together by UNA-USA for the purpose of coming up with some innovative ideas for strengthening the UN as it faces the tough challenges ahead. Their first report helped lay the political groundwork, most strikingly in key third world capitals, for the December reforms and for others now underway. What has been most heartening about their deliberations has been the clarity, determination and forthrightness with which the participants from

all parts of the world have tackled these issues. There has clearly been an impressive degree of North-South convergence of thinking on these issues over the past decade.

Second, my interactions with the public, the media and UNA-USA members from around the country have brought home to me the basic determination of the American people to stick with the UN through thick and thin. Over the past decade, the percentage of the American people favoring continued US membership in the UN has actually grown, to an overwhelming 81 to 11 percent according to the Gallup Poll. Americans tend to be critical of the UN, as they are of other institutions of government, because they want it to be stronger and more effective. That message is not always made in this town as forcefully as it should be, and we are sometimes told that it is the American public which has demanded decreasing US participation in the UN. As a 1986 Chicago Council on Foreign Relations Poll demonstrates, it is the foreign policy elite, not the public, that has lost its faith. About one-half (49 percent) of the public sample said that the "goal of strengthening the UN" was "very important," while less than one-quarter (23 percent) of the "leadership" group agreed. Almost identical results were found in 1978.

At UNA-USA, we have discovered that constructive efforts to strengthen the UN will attract the enthusiastic support of Americans representing many different political perspectives. The reform steps are sparking a broad-based convergence in American thinking about the UN, as well as a potential renaissance in the functioning of the UN itself. Congress now has the opportunity to keep the momentum going by demonstrating that it is as ready to recognize improvements in UN performance as it has been to condemn its failings.

CORRESPONDENCE

Senator HOLLINGS. The Subcommittee has received a letter from Sharon Bomer of the United Fresh Fruit and Vegetable Association with regard to the UN Food and Agriculture Organization. We will insert this letter, and the clerk will also insert at this point any additional letters the subcommittee receives with regard to our contributions to international organizations.

[The letters follow:]

United Fresh Fruit and
Vegetable Association

March 17, 1987

The Honorable Ernest F. Hollings
Chairman
Subcommittee on Commerce, Justice,
State, The Judiciary and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Although U.S. support for the United Nations system would not normally be a direct or important concern to members of the United Fresh Fruit and Vegetable Association, there is one aspect of this issue which we would like to draw to your attention.

Over the past year we have worked closely with the UN Food and Agriculture Organization (FAO) to control the spread of the Mediterranean fruit fly from infested areas of Central America. This insect is a very dangerous menance to citrus, stone fruit and other crops and on several occasions has gained entry into the United States. The work of FAO -- to gain Central American support for a control program; to work with Animal and Plant Health Inspection Service (APHIS); to plan an eradication program with the use of the "sterile insect technique"; and to enlist the support of other countries to share in the costs involved -- will be absolutely essential to the success of this project.

In a larger sense, it is important for Congress to recognize the ever-increasing danger of plant pests and diseases getting into our country from other parts of the world -- and the consequent risks to the industry we serve. APHIS plant protection experts report to us that there are from 20 to 30 incidents of pest or disease invasion occurring each year. Although the work of APHIS is a relatively small part of the total USDA budget, we believe its work should be among the highest of the department's priorities. But it is clear from the above that American agriculture cannot be protected by border and port control mechanisms, and that we must move toward greater cooperation with other countries on both control and eradication measures.

FAO is by far the most important international agency in this field. In the past year, for example, it coordinated the very successful locust campaign in 17 African countries; the joint program of FAO and the International Atomic Energy Agency (IAEA) has been a pioneer in the environmentally innovative sterile-insect technique; and FAO works closely with USDA and the Food and Drug Administration in food-import contamination controls.

U.S. financial support for FAO will inevitably arise in this year's budget debate and other Congressional deliberations. It is our hope that you will consider the points we have raised above when this matter comes before you. Because we are quite aware of the budget stringencies facing the Congress this year, it is not our purpose to ask for any new money or special consideration for FAO beyond the amount already contained in the Administration's budget proposal. However, we do want to make the point that there is a level at which reductions in FAO's programs can have an adverse impact on the interests of our members and the health of American agriculture as a whole. We hope, therefore, that the financial commitments already agreed to will be honored, and that any further review of the UN system will take into account the technical and unpolitical roles played by the various technical agencies of the system and especially FAO.

Sincerely,

Sharon Bomer

Sharon E. Bomer
Director, Government Relations

March 4, 1987

1987 MAR -9 AM 11:46

Senator Ernest Hollings
United States Senate
Washington, DC 20510

Dear Senator Hollings:

We are writing to you out of deep concern for the recent stand of the United States toward the UN.

Last year Congress and the Administration cut 1986 assessed contributions to the UN by more than 50%. Moreover, spending of $130 million appropriated for the UN system was deferred until October 1987, which will create severe cash flow problems. These are contributions which the United States is obligated by international treaty to pay. Most of the cuts were instituted because the United States, like several other nations that contribute a large share of the UN budget, felt it deserved more influence over budget decisions. There was also strong feeling that UN administrative and management reforms were imperative.

We believe that the world body has responded effectively to the concerns of its major donors. As you know, in 1986 Secretary-General Perez de Cuellar managed cuts of $60 million from the organization's budget and in 1987 expects to cut another $85 million. An 18-member UN Group of Experts delivered recommendations for sweeping reforms, which were considered by the 41st General Assembly last fall. On December 19, the General Assembly adopted the centerpiece reform to overhaul budget procedures to allow for greater budget control by large donors. Another reform includes reducing upper and middle management positions by 25% and 15% respectively. U.S. Ambassador Vernon Walters hailed the reforms as "historic," and President Reagan promised the Secretary General to seek to restore U.S. funding that has been withheld.

The primary legal obstacle to full funding of the UN is the Kassebaum Amendment which mandates that the U.S. share of the UN budget be reduced from 25% to 20% unless the UN adopts weighted voting. It is the sense of the Administration that the requirements of the Kassebaum Amendment have been met, in spirit, by the reforms. Therefore, the Administration has proposed legislation which would suspend the Kassebaum Amendment and restore withheld funds to the UN system subject to Presidential certification that the UN is successfully implementing reforms (and that specialized agencies are following suit).

The UN adopted its reforms just days after the Administration delivered its FY87 supplemental and the FY88 budget requests to Congress, and the supplemental requests did not include U.S. funds for the UN dues that had been withheld. Furthermore, we understand that the President's FY88 budget request of $390 million for the UN system will also be reduced automatically to $310 million (or about three-quarters of the U.S. assessment) by application of the Kassebaum Amendment.

We are concerned about negative impacts on the specialized agencies of the UN system as well as those programs funded by voluntary contributions. Voluntary contributions to UN agencies, such as the UN Development Program, UNICEF, and the UN Environment Program, are multilaterally negotiated obligations which the recipient agencies rely on heavily, though they are not treaty obligations. The FY88 budget request represents a 13% cut below FY87 appropriated levels and a **46% cut below FY85 levels** for these voluntary contributions.

If past and present obligations to the UN are not met, it may appear to UN member nations that pledges made by UN Ambassador Vernon Walters and President Reagan to seek restoration of funds following the reforms adopted in December were not made in good faith. Delinquency may also poison the environment in which currently agreed upon reforms are being carried out. Moreover, our ability to negotiate future reform in respect to management, budget, coordination and program content will suffer if we do not meet our obligations.

Congress must take the initiative to restore the funds to meet U.S. commitments to the UN. The future viability of the UN is in the balance. The following actions are required:

- o Release of the $130 million FY87 deferred funds to UN specialized agencies,
- o Support of the Administration proposal to suspend the Kassebaum Amendment and restore withheld funds subject to certification that reforms are being satisfactorily implemented, and
- o Appropriation of sufficient FY88 funds to meet all past and present obligations to the United Nations and its agencies.

We will be in touch with you to explore how we can work with you to restore U.S. support to the UN at levels demanded by treaty obligations.

Sincerely,

Nancy Alexander
Legislative Secretary
Friends Committee on National Legislation

Corinne Whitlatch
Washington Representative
American-Israeli Council for Israeli-Palestinian Peace

Susan Harder
President
American Association of University Women

Ruth Roemer, J.D.
President
American Public Health Association

Eric Cox
Legislative Director
Campaign for UN Reform

James Hug, S.J.
Director of Research
Center of Concern

Leland Wilson
Director, Washington Office
Church of the Brethren

Sally Timmel
Director, Washington Office
Church Women United

Corinne B. Johnson
Secretary, International Division
American Friends Service Committee

Coralie Bryant
Co-Director,
International Development Program
American University

June Willenz
Executive Director
American Veterans Committee

John E. Fobes
Chairman
Americans for the Universality of UNESCO

Dwain C. Epps
Executive Director,
International Affairs Commission
National Council of the Churches of Christ, U.S.A.

Dr. Paulette Coleman
Director, International Division
National Council of Negro Women, Inc.

Katharine R. Bigelow
Deputy Director,
Office of External Affairs
National Spiritual Assembly of the Baha'is of the U.S.

William L. Weiler
Director, Washington Office
Episcopal Church

Sharon Glassman
Founder
Friends of the United Nations

Sylvia Kleinman
Chair, Committee on the UN
Gray Panthers

J.E. Rash, Founder
Dr. Ira Kaufman, Exec. Dir.
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Arthur Keys, Jr.
Executive Director
Interfaith Action for Economic Justice

Esther Peterson
Representative to the Economic and Social Council at the UN
International Organization of Consumers Unions

Nancy N. Neuman
President
League of Women Voters of the United States

Delton Franz
Director, Peace Section,
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Mennonite Central Committee of the U.S.A.

Pharis J. Harvey
Executive Director
North American Coalition for Human Rights in Korea

Robert F. Smylie
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Presbyterian Church, U.S.A.

Dan Houston
Political Director
SANE

Robert Z. Alpern
Director, Washington Office
Unitarian Universalist Association

Jay Lintner
Executive Director,
Office for Church in Society
United Church of Christ

Robert McClean
Director, Department of Peace & World Order
General Board of Church & Society
United Methodist Church

Steven A. Dimoff
Director, Washington Office
United Nations Association of the U.S.A.

Florence Schott
President, Capital Area Division
United Nations Association

Walter Hoffmann
Executive Director
World Federalist Association

TROPICAL ECOSYSTEM RESEARCH AND RESCUE ALLIANCE
TERRA International, P.O. Box 18391, Washington, D.C. 20036-8391 (202) 667-3827
Office: 6113 Tulane Ave. #2, Glen Echo, MD 20812

April 22, 1987

Senator Ernest F. Hollings
115 Rayburn Senate Office Buiding
Washington, D.C.

Subject: Commerce, State and Justice Subcommittee Appropriations for the State Department budget and funding for the International Tropical Timber Organization

Dear Senator Hollings:

I am writing in regards to the subcommittee on Commerce, State and Justice 1988 appropriations for the Department of State. An important international organization, The International Tropical Timber Organization, (ITTO), is funded under the Conferences and Contingencies line item of the State Department budget. This organization is an important means to developing a global committment to the protection of tropical forests. The ITTO's first substantive meeting was held last month in Japan. The U.S. dues for this organization are not high, (the 1987 dues are $100,000), but the U.S. gave the ITTO only $6,000 of the $50,000 in dues promised for the first half of 1987. This embarrasing situation was due to across the board cuts in the State Department budget for 1987. Money for the ITTO was cut to 45% of its 1986 dues which were set while the organization was inactive. The resulting default in the U.S. dues could prove fatal to the fledgling organization.

I have enclosed a fact sheet which describes the International Tropical Timber Organization and its importance to conservation of tropical forests. It is important that funding for this organization be assured for 1988. The U.S. is not the only country that has not paid its dues, but the U.S. is the second greatest voting power of consumer countries and is the second greatest importer of tropical timber. And as always, the U.S. sets standards for other countries. If possible money to help belay the 1987 default should be found but unless the U.S. pays its dues for 1988, the important programs the organization is planning will not be possible.

Thank you for your attention to this important issue. If you have any questions please call me at (202) 667-3827.

Sincerely,

Rhonda Kranz
Vice President

* US voting rights will be suspended by the ITTC if FY88 '87 dues are not met. This will occur before the ITTC's next meeting in Nov. at which time proposed programs will be up for vote. Allocation of funds for FY88 (available Oct 87) will assure US voting privileges.

THE INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO) AND TROPICAL FOREST CONSERVATION

Last month the second meeting of the International Tropical Timber Organization, (ITTO), took place at its new headquarters in Yokohama, Japan. The ITTO is the administrative body of the International Tropical Timber Agreement, (ITTA), an international trade agreement which could be invaluable in protecting the future of the world's tropical forests. The recent meeting was seen as constructive by all concerned but the future of the ITTO is uncertain due to the failure of the U.S. and other member countries to pay their promised dues. The U.S. needs to include full funding for the ITTO in the State Departments 1988 appropriations.

WHAT IS THE ITTO?
In April 1985, 41 consumer and producer nations ratified a commodity trade agreement called the International Tropical Timber Agreement (ITTA). This agreement established a system of consultation and cooperation between countries representing 95% of the world's tropical timber trade, consuming or producing tropical timber. The International Tropical Timber Organization (ITTO) was formed by the signatories to the ITTA to act as the agreement's administrative body. This agreement, drawn up under the United Nations Convention on Trade and Development (UNCTAD) is the only commodity agreement that includes conservation as a major objective.

Forest conservation was made a major objective of the agreement early on because it was recognized that tropical timber is a unique commodity that requires special consideration since the sustainable development of tropical timber resources would have far-reaching beneficial effects on other key sectors such as agriculture, food and water supply, energy, and the preservation of ecosystems.

THE ITTO'S STRUCTURE
The ITTO is governed by a Council made up of representatives from the ITTA's signatory nations. The first session of the ITTO Council took place in July 1985 in Geneva, Switzerland. The Council confirmed the basic structure of the ITTO and established its headquarters in Yokohama in early 1987 at the invitation of the Japanese government. Dr. Freezailah Che Yeom, the Deputy Director-General of Malaysia's Federal Forestry Department was appointed Executive Director. The ITTA established several committees within the ITTO that will have specific responsibilities. A key committee for tropical forest conservation will be the Committee on Reforestation and Forest Management.

The voting power of each country is determined by its net imports and exports in tropical timber and its tropical timber resources. The US is second only to Japan in votes of consumer members.

The ITTO will design and implement projects funded by contributions from signatory countries. So far less than U.S. $4 million ($2 million from Japan) has been offered to the project fund out of a proposed budget of $106 million . It is expected that member governments will continue to contribute to this fund.

THE ITTO'S CONSERVATION OBJECTIVES
The following is an excerpt from the ITTA's preamble which clearly states recognition of the importance of tropical forests, and article 1(h) of the agreement which makes conservation one its principal objectives.

"recognizing the importance of, and the need for, proper and effective conservation and development of tropical forests with a view to ensuring their optimum utilization while maintaining the ecological balance of the regions concerned and of the bioshere".

"To encourage the development of national policies aimed at sustainable utilization and conservation of tropical forests and their genetic resources and at maintaining the ecological balance in the regions concerned."

The ITTA encourages conservation policies by establishing a voting system which ensures that countries which conserve resources are not penalized in terms of their voting strength. The ITTA is supported by both the timber trade and environmental organizations.

THE ITTO'S MARCH MEETING

The U.S. delegation to the March meeting included one individual from The Office of U.S. Trade Representatives and two from The Department of State. During the meeting a draft Work Program was presented and $640,000 was authorized for pre-project activities. This includes a FAO study on the conservation and managment of tropical forests. Full proposals for the projects are to be submitted several months before the next meeting, which was set for November 1987.

By the end of the meeting 15 member countries still owed the ITTO a total of $700,000. The U.S., owing $50,000 for the first half of 1987, leads the defaulters with a contribution so far of only $6,000. The discrepency is due to budget cuts within the State Department. The dues required by the ITTO in 1986, while it was virtually dormant, were substantially less that those required for its activities this year. Yet ITTO funding for 1987 was cut to 45% of last year's budget.

THE ITTO'S FUTURE

The ITTO will be in serious trouble if the U.S. and the other member nations do not pay their dues. It is particularly important that the wealthly consumer countries show their support for the ITTO programs and its conservation objective. U.S. economic incentive for supporting the ITTO includes imports of tropical timber valued at $2.2 billion per year, slightly less than Japan's figure of $2.3 billion. In addition, the U.S.' growing concern over the loss of tropical forests has been adressed through a series of recent legislation. It is important that the U.S. maintain its objective of protecting tropical forest through financial and organizational support of the ITTO. The U.S. should try to come up with the money it already owes the ITTO. Right now, while Congress is making appropriations for the State Department's 1988 budget for "Conferences and Contingencies", complete funding for the ITTO must be assured.

Contact: Rhonda Kranz at TERRA Int'l (202) 667-3827

JIMMY CARTER

May 1, 1987

To Senator Ernest Hollings

The accomplishments of the World Health Organization (WHO) have been an important component in the reduction of infant mortality, improvement in nutritional status, and increased longevity recorded in developing countries in the past twenty-five years. The United States has been a significant supporter and beneficiary of WHO programs. The eradication of smallpox alone provides financial benefits to the United States that still far exceed our annual commitment.

I am very concerned by the failure of the United States to meet its 1986 assessment and fear that this could become a precedent for any country wishing to default. The AIDS pandemic has reemphasized the need for a strong global health organization.

I would appreciate your help in finding ways to meet our treaty obligation and thank you for your consideration of this small but very important expenditure.

Sincerely,

Jimmy Carter

The Honorable Ernest F. Hollings
United States Senate
Washington, D.C. 20510

Senator HOLLINGS. Ambassador Richards, I appreciate your contribution here this morning. I apologize to you, Ambassador Walters, and the Secretary because we've got the debate on the President's veto of the Highway Bill upstairs, and we've got the Budget Committee marking up the Budget right now. As I indicated earlier, the majority of this subcommittee is already over there marking up the Budget.

I have a few additional questions I want to submit for the record.

Do you wish to add anything? I'll support you and see what we can do. I don't think we'll have too much trouble, but, you know, the UN is a good target to shoot at. I don't get a lot of votes back home for the UN.

Ambassador WALTERS. I would just like to add that I hope that the Congress would see its way clear to give us the funding.

Senator HOLLINGS. Right.

Ambassador WALTERS. There's no written commitment, but the good faith of the United States is at some issue, I would hope.

Senator HOLLINGS. And we ought to support you folks who are doing the job now. That's what Congress wanted, if they don't want to the UN—maybe that's where we ought to send them all.

U.N. BUDGET REDUCTION

I have a question from my colleague, Senator Rudman, our ranking member and former Chairman. He says, "Currently we are reviewing options in the Budget Committee for funding of the International Affairs Programs. The Chairman, Senator Chiles has presented a plan that assumes contributions to international organizations would be approximately $100 million less than the President's request for 1988." I guess, Secretary Keyes, this is your question. "What impact would such a reduction have on the operations of the United Nations and well, it's directed at you too, Ambassador Walters, ". . . and its related agencies. What impact would such a reduction have on the status of the United States if the UN given the relative success of our negotiations to reform the UN budget process?"

Let me hear your comments first, Mr. Ambassador.

Ambassador WALTERS. I think it would be extraordinarily negative, Mr. Chairman. We've gotten, basically, most of the things that we want. I think we have the means of being vigilant and seeing that those reforms are continued, some of them have even been started and I think it would have a very negative impact if we did not get the full assessment.

Senator HOLLINGS. And this is a $100 million less than what the President wanted. We know of the President's program of going ahead with the full amount subject to his certification and then we need another $110 million, so this is $210 million.

Mr. KEYES. You've taken the words out of my mouth. I think that such a cut would put us well below what we need to meet our obligations, both to the UN and to the specialized agencies. In the allocation of those cuts, therefore, we would not only be damaging the reform

process, not only be robbing ourselves of a chance to consolidate our increased influence, we would also be hurting specialized agencies that directly benefit our interests—the World Health Organization, the ILO, the World Meteorological Organization, the International Maritime Organization, and the International Civil Aviation Organization. These are organizations that have been involved in a regulation of things that are important to our commerce, helping us to fight terrorism, helping us to fight AIDS and at this moment where these kinds of efforts are going forward, some of them under our leadership and encouragement, we would be cutting back and putting these organizations in a position where they can't continue to sustain the effort and where we can't sustain our influence.

Mr. RICHARDSON. May I add a point on that?

Senator HOLLINGS. Yes, sir.

Mr. RICHARDSON. The administration, through Ambassador Kirkpatrick, in the first instance, and since then under Ambassador Walters and Secretary Keyes, have accomplished a lot, not only to encourage reforms, but to put the United States in a position in which it can exercise some genuine leadership in these international organizations. So what is at stake here is not only a potential set back to the cause of reform and to the missions of the organizations but to the opportunity to take advantage of this opening toward leadership, and I think that positive dimension needs also to be kept in view.

UN AND NEW YORK CITY

Ambassador WALTERS. Another rather mundane consideration, Mr. Chairman, is that the UN's presence in New York funnels into the economy of New York City and the United States a larger sum than the one we are discussing here.

Senator HOLLINGS. Patrick Moynihan reminds us of that. In fact, the subcommittee has also received a statement from Mayor Ed Koch with regard to United Nations that will be printed in the record at this point.

[The statement follows:]

TESTIMONY OF MAYOR EDWARD I. KOCH

CONCERNING
DIPLOMATIC POLICE PROTECTION REIMBURSEMENT

CHAIRMAN HOLLINGS, MEMBERS OF THE SUBCOMMITTEE, I WANT TO THANK YOU FOR EXTENDING THIS OPPORTUNITY TO ME TO TESTIFY ON FEDERAL REIMBURSEMENT PROVIDED TO LOCALITIES FOR THE COSTS OF PROTECTING FOREIGN DIGNITARIES -- AN ISSUE OF PARAMOUNT IMPORTANCE TO NEW YORK CITY, AND INDEED, TO OUR NATION.

TODAY I WISH TO ADDRESS NEW YORK CITY'S CONCERNS ABOUT TWO SEPARATE BUT CLOSELY ALLIED DIPLOMATIC POLICE PROTECTION REIMBURSEMENT PROGRAMS: ONE FOR UNITED NATIONS DIGNITARIES, AUTHORIZED BY P.L. 94-196, AND THE OTHER FOR CONSULAR OFFICIALS, AUTHORIZED BY P.L. 98-164, THE 1984 STATE DEPARTMENT AUTHORIZATIONS ACT.

NEW YORK HAS A SUBSTANTIAL STAKE IN BOTH OF THESE PROGRAMS SINCE THE CITY SERVES AS HOST TO THE LARGEST DIPLOMATIC COMMUNITY IN THE WORLD -- ONE CONSISTING OF OVER 32,000 FOREIGN OFFICIALS AND THEIR FAMILIES ASSOCIATED WITH 159 UNITED NATIONS MISSIONS AND 88 FOREIGN COUNTRIES.

ROUTINE POLICE SERVICES WHICH ARE PROVIDED TO ALL OUR CITIZENS, SUCH AS CRIME PREVENTION, SAFETY PATROLS, EMERGENCY AID AND THE INVESTIGATION OF CRIMINAL ACTIVITY ARE NOT PART OF MY TESTIMONY TODAY. NEW YORK CITY AND NUMEROUS OTHER CITIES ACROSS THE COUNTRY GLADLY ABSORB THE COST OF PROVIDING THESE SERVICES TO THEIR DIPLOMATIC COMMUNITIES, EVEN THOUGH THE DIPLOMATIC COMMUNITY CONTRIBUTES VIRTUALLY

NOTHING TO THE COST OF THESE SERVICES DUE TO ITS EXEMPTION FROM INCOME, PROPERTY, AND SALES TAXES -- NOT TO MENTION PARKING FINES AND OTHER LEGAL JUDGMENTS.

THE TYPE OF PROTECTION WE ARE DISCUSSING TODAY IS "EXTRAORDINARY PROTECTION." PROVISION OF EXTRAORDINARY PROTECTION IS BASED ON THREATS POSED AGAINST SPECIFIC DIPLOMATS AND FOREIGN PROPERTIES AT SPECIFIC TIMES. IT ALLOWS DIGNITARIES TO PERFORM THEIR BUSINESS IN AN UNHAMPERED AND SAFE MANNER. THIS TYPE OF PROTECTION FAR EXCEEDS THE SCOPE AND RESPONSIBILITY OF NORMAL LOCAL POLICE ACTIVITY. IT ACTUALLY FULFILLS A FEDERAL RESPONSIBILITY ASSUMED THROUGH RECIPROCAL INTERNATIONAL AGREEMENTS. IT IS FOR THIS REASON, COUPLED WITH THE FACT THAT INTERNATIONAL TERRORISM HAS DRAMATICALLY INCREASED IN THE LAST FEW YEARS, THAT THE FEDERAL GOVERNMENT HAS INCREASINGLY ACKNOWLEDGED ITS RESPONSIBILITY FOR THE COST OF THIS TYPE OF PROTECTION.

IN DECEMBER 1975, AFTER 15 YEARS OF EFFORT BY NEW YORK CITY TO SECURE FEDERAL ASSISTANCE FOR THE PROTECTION IT PROVIDED FOREIGN DIGNITARIES VISITING THE UNITED NATIONS, PRESIDENT FORD SIGNED PUBLIC LAW 94-196 TO ALLOW REIMBURSEMENT OF UP TO A MAXIMUM OF $3.5 MILLION ANNUALLY FOR SUCH PROTECTION. THE CITY'S LONGSTANDING CONTENTION THAT PROTECTION OF FOREIGN DIGNITARIES WAS A FEDERAL RESPONSIBILITY WAS ACKNOWLEDGED IN THE SENATE REPORT WHICH ACCOMPANIED THIS LAW WHICH STATED: "LOCAL COMMUNITIES SHOULD NO LONGER BE FORCED TO BEAR THE FULL COST OF WHAT IS ESSENTIALLY A <u>NATIONAL</u> OBLIGATION."

AS A RESULT OF CONGRESSIONAL INITIATIVES DURING 1982,

THE AMOUNT AVAILABLE FOR U.N. POLICE PROTECTION WAS INCREASED FROM THE ORIGINAL $3.5 MILLION LEVEL TO THE CURRENT LEVEL OF $7.0 MILLION TO MORE ACCURATELY REFLECT THE AVERAGE ANNUAL COST OF EXTRAORDINARY U.N. POLICE PROTECTION. FOR EXAMPLE, IN FEDERAL FISCAL YEAR 1986, NEW YORK CITY EXPENDED $8.8 MILLION FOR FIXED POSTS AT FOREIGN MISSIONS, SUPPLEMENTAL COVERAGE FOR DEMONSTRATIONS AT FOREIGN PROPERTIES, AND PROTECTION FOR SCORES OF VISITING FOREIGN DIGNITARIES.

THE SECOND OF THE TWO PROGRAMS WE ARE DISCUSSING TODAY WAS AUTHORIZED FOR THE FIRST TIME IN FEDERAL FISCAL YEAR 1984 AND PROVIDES REIMBURSEMENT FOR THE PROTECTION OF FOREIGN CONSULATE OFFICIALS. AS YOU KNOW, IN 1986, $2.5 MILLION WAS APPROPRIATED FOR THIS PURPOSE. THIS PROGRAM ALLOWS REIMBURSEMENT FOR THE EXTRAORDINARY PROTECTION OF CONSULAR OFFICIALS WHO ARE FREQUENTLY IN AS MUCH NEED OF SUCH PROTECTION AS ARE UNITED NATIONS DIGNITARIES. NEW YORK CITY HAS FOR MANY YEARS MAINTAINED THAT LOCAL GOVERNMENTS SHOULD BE REIMBURSED FOR THE EXTRAORDINARY PROTECTION THEY PROVIDE CONSULAR OFFICIALS IN THE SAME MANNER IN WHICH THEY ARE REIMBURSED FOR UNITED NATIONS DIGNITARY PROTECTION.

BEFORE THE CREATION OF THE CONSULAR PROTECTION REIMBURSEMENT PROGRAM, THE CITY ABSORBED UP TO $800,000 PER YEAR FOR CONSULAR PROTECTION. RELIEF FROM THIS BURDEN IS WELCOMED. HOWEVER, BECAUSE NO STATE CAN RECEIVE MORE THAN 20 PERCENT OF THE TOTAL APPROPRIATION, REIMBURSEMENT UNDER THIS PROGRAM MAY NOT COVER THE ENTIRE COSTS INCURRED BY THE CITY EACH YEAR. LOCALITIES SHOULD NOT BE FORCED TO ABSORB THE COSTS FOR THESE PROTECTIVE SERVICES PROVIDED AT THE BEHEST OF FEDERAL OFFICIALS.

BECAUSE OF RESOURCES PROVIDED THROUGH THESE PROGRAMS, WE HAVE BEEN ABLE TO WARD OFF SERIOUS TERRORIST ACTIONS AGAINST THE DIPLOMATIC COMMUNITY IN NEW YORK. WITH THE EXCEPTION OF ONE INCIDENT IN 1980, THE CITY HAS HAD A PERFECT RECORD IN ENSURING THE SAFETY OF DIPLOMATS AND THEIR FAMILIES. HEADS OF STATE, MEMBERS OF ROYALTY, AND POPES HAVE FREELY MOVED THROUGH THE CITY AND DEPARTED IN SAFETY.

TO DATE, THE COMBINED APPROPRIATION OF $9.5 MILLION FOR THE UNITED NATIONS AND CONSULAR PROTECTION PROGRAMS HAS NOT PROVED PROBLEMATIC. THE CITY IS SOMEWHAT CONCERNED, HOWEVER, THAT SUBSTANTIAL DELAYS BETWEEN CLAIM SUBMISSION AND ACTUAL REIMBURSEMENT, AND THE LACK OF REGULATIONS IMPLEMENTING EITHER PROGRAM LEAD TO BUDGETING AND ACCOUNTING DIFFICULTIES AND RESULT IN UNCERTAINTY AS TO WHETHER $9.5 MILLION IS SUFFICIENT.

IN FEBRUARY 1987, THE CITY RECEIVED $8.7 MILLION FOR UNITED NATIONS PROTECTION REIMBURSEMENT. SOME OF THE CLAIMS UPON WHICH THE REIMBURSEMENT WAS BASED WERE SUBMITTED NEARLY ONE YEAR PRIOR TO THAT DATE. IN ADDITION, SOME CLAIMS, STILL OUSTANDING, ARE CURRENTLY UNDER DISCUSSION BETWEEN THE CITY AND THE STATE DEPARTMENT -- A DISCUSSION WHICH IS MADE MORE DIFFICULT DUE TO THE FACT THAT THE STATE DEPARTMENT HAS YET TO PROMULGATE REGULATIONS FOR THE PROGRAM.

IN ADDITION, THERE IS ALWAYS LACK OF CERTAINTY WHEN PREDICTING NECESSARY FUNDING FOR THE UNITED NATIONS AND CONSULAR PROTECTION PROGRAMS DUE TO THE INABILITY TO PREDICT VISITS BY WORLD FIGURES DURING THE COMING YEAR. A SINGLE

VISIT BY CERTAIN LEADERS CAN SERIOUSLY INCREASE THE BUDGET FOR THESE PROGRAMS.

IN PROVIDING DIPLOMATIC PROTECTION, THE NEW YORK CITY POLICE DEPARTMENT IS SERVING ALL AMERICANS, AND IS DOING SO AT CONSIDERABLY LESS THAN IT WOULD COST THE FEDERAL GOVERNMENT ITSELF TO DO SO. THE TREASURY DEPARTMENT TESTIFIED BEFORE CONGRESS NEARLY FIVE YEARS AGO THAT IF THE FEDERAL GOVERNMENT WERE TO PHYSICALLY PROVIDE THIS PROTECTION, AS IT DOES IN WASHINGTON, IT WOULD COST $20.1 MILLION TO DO SO IN THE FIRST YEAR ALONE, WITH AN ANNUAL COST THEREAFTER OF $14.5 MILLION. SURELY IN THIS LIGHT, THE $7.0 MILLION ANNUALLY WHICH HAS BEEN AUTHORIZED FOR THIS PURPOSE SINCE FISCAL YEAR 1983 IS NOT UNREASONABLE AND IS SUBSTANTIALLY LESS THAN THE $8.8 MILLION THE CITY SPENT IN FISCAL YEAR 1986 TO WHICH I ALLUDED EARLIER IN MY REMARKS. IN FACT, IN LIGHT OF WHAT IT MIGHT COST THE FEDERAL GOVERNMENT TO PROVIDE THIS PROTECTION TODAY AS A RESULT OF INFLATION, IT IS A REAL BARGAIN FOR THE UNITED STATES -- SOMETHING RARE IN THIS DAY AND AGE. THIS TYPE OF COST EFFECTIVENESS DOES NOT WARRANT REDUCTIONS. I THINK YOU'LL AGREE.

AS YOU CAN SEE, THE PROVISION OF POLICE SECURITY FOR THE DIPLOMATIC COMMUNITY IN NEW YORK CITY IS COSTLY, BUT MUCH LESS COSTLY THAN THE IMPLICATIONS FOR OUR COUNTRY OF HAVING "HALF-WAY" PROTECTION. RECOGNIZING THIS, AS WELL AS THE EVER-PRESENT SPECTER OF INTERNATIONAL TERRORISM, THE CITY OF NEW YORK SUPPORTS INCREASED FUNDING FOR THE DIPLOMATIC PROTECTION PROGRAMS IN FEDERAL FISCAL YEAR 1988. I URGE YOU TO ENACT ANY NECESSARY INCREASED FUNDING LEVELS FOR THESE WORTHY PROGRAMS AND I WANT YOU TO KNOW THAT THE CITY OF NEW YORK IS VERY APPRECIATIVE OF THE SUPPORT GIVEN THESE PROGRAMS BY YOUR COMMITTEE IN THE PAST.

Senator HOLLINGS. I think we embarrass the country by our own stupidity and intransigence in not paying the bills. What we're doing is spending our children and grandchildrens money because we won't spend any of our own. It's the damndest charade I have ever seen. You couldn't get away with this in a City Hall or State Capitol, what we do up here.

So there's no reason to cut the international agencies some 40 per cent.

Senator BUMPERS. Is it about time for adjournment, Mr. Chairman?

Senator HOLLINGS. I'm delighted that you could get to be with us, Senator Bumpers.

Secretary Keyes and the Ambassador have both outlined the tremendous improvements that have been made both by way of budget reform, by way of our influence itself and allocation of the budget and consequent influence in the other votes relative to Afghanistan and many other things that have been accomplished at the UN, so I think we've got a new attitude and approach. Secretary Richardson was also supporting the President's request to let's go with the full amount to the UN subject to his certification that the budget reforms are being adhered to and I am disposed in that direction. Do you have any questions at this time?

SOUTH AFRICAN SANCTIONS

Senator BUMPERS. Well, I have one question that I will submit in writing on the budgetary reforms. Mr. Ambassador have there been any votes on South African sanctions?

Ambassador WALTERS. Yes, there have.

Senator BUMPERS. How has the United States voted?

Ambassador WALTERS. The United States, the last time, voted against mandatory sanctions.

Senator BUMPERS. How did the issue arise, what was the question?

Ambassador WALTERS. It was introduced by a group of states with an interest in this and, frankly, our position on that is this: If we vote for mandatory sanctions and then the South African Government begins to move and to negotiate, to improve the situation, we cannot relax the sanctions because the Soviet Union can then veto any lifting of the sanctions to encourage the South African Government to move further.

So, I believe that is the rationale for voting against mandatory sanctions, even though the sanctions are those that we ourselves, the Congress itself imposed. It's the mandatory part we feel might tie our hands in the future.

Senator BUMPERS. Mr. Ambassador, the only thing that bothers me about that is, of course, that is in direct contravention with the way Congress has voted and literally mandated this country's policy to be Section 401(e) of the Anti Apartheid Act of 1985 entitled, "Multilateral Measures to Undermine Apartheid," states: "It is the sense of the Congress that the President should instruct the Permanent Representative of the United States to the United Nations to propose

that the United Nations Security Council, pursuant to Article 1 of the United Nations Charter, impose measures against South Africa of the same type as are imposed by this Act."

Now that was a sense of the Congress provision which the President and I both understand is not binding, but it seems to me that it does put the United States in a very peculiar position of the Congress overwhelmingly voting for sanctions and the United Nations Representative voting to the contrary.

Ambassador WALTERS. I believe the measures required by the Congress are being implemented. It is the mandatory part of it that we did not vote for.

Senator BUMPERS. How many votes have there been on this issue at the UN?

Ambassador WALTERS. On mandatory sanctions, I would say at least 3 over a period of years since I have been there. It was an interesting vote in the sense that, for instance, Europe, which usually tends to vote as a bloc in the European Community, Great Britain and Germany voted against the sanctions, France abstained and Italy voted for the mandatory sanctions. So even in the European bloc you had an unusual fissure on that.

Senator BUMPERS. Tell me again the rationale for our vote on that.

Ambassador WALTERS. The rationale is that if we impose sanctions, it then becomes mandatory and they are in a UN resolution, a Security Council resolution which can be vetoed by any permanent member of the Security Council. So any attempt to change, to lessen them, to remove them, to encourage progress, could be vetoed by the Soviet Union or China or any one of the 5 permanent members.

Senator HOLLINGS. Do you have a sense of the United Nations like we a sense of the Senate to try that on for size to see if South Africa would respond and then if they didn't, as Senator Bumpers' questions are indicating, then we would have to go the mandatory route.

Mr. KEYES. Well, if I could add, I think all General Assembly Resolutions, whatever their content, have the character of a sense of the Congress resolution. They're simply recommendatory suggestions, advising, et cetera. They do not have standing in international law, but the Security Council resolutions are different, they are binding. It's in the Charter and once we agree to one of them, we are basically saying, that's the law, we agree to it, and it binds our hands for good and all and then, if progress is made or if we have a reason to want to play a different kind of role, whatever may be the considerations of our policies, we could not do so. We would be abdicating our flexibility in response to future events and abdicating a special role we have to play in southern Africa, and that is, I think, the grounds on which we oppose the mandatory character of this resolution.

SOVIET UNION VOTE RECORD

Senator BUMPERS. How has the Soviet Union voted on all these three votes?

Ambassador WALTERS. They have always voted for it.

Senator BUMPERS. Do you not think that hurts us with African nations?

Ambassador WALTERS. Well, I think it probably does to some extent, but I think there were certain other factors involved here such as what will be the impact on the Front Line States if the South Africans impose counter sanctions and we're talking about billions of dollars.

Senator BUMPERS. What is the—I know you have covered this and I don't want to belabor it, Mr. Chairman——

Senator HOLLINGS. Go right ahead.

UN SUPPLEMENTAL REQUEST

Senator BUMPERS. Let me just ask one question. What is the financial status of the United Nations right now. Is that a part of the supplemental request here or not?

Ambassador WALTERS. Well, I believe, what is going to be asked for is the full assessment of the United States for the 25 per cent, which was agreed to some 20 years ago.

Senator HOLLINGS. Is that for 1988.

Ambassador WALTERS. For Fiscal Year 1988.

Senator HOLLINGS. But it says 1987.

Ambassador WALTERS. We are not requesting prior year arrearages at this time but I think that's something we're going to have to look into and probably acknowledge the responsibility for and at some point negotiate an agreement to pay it over a period of time.

Senator BUMPERS. I hope the President works as hard to get that money as he does over sustaining this veto we're about to vote on.

Ambassador WALTERS. That's not in my department.

Senator HOLLINGS. They're running all over Washington hollering, "pork, pork, pork,"——

Ambassador WALTERS. That's one thing we don't have in the United Nations is pork.

Senator BUMPERS. I don't have any other questions, Mr. Chairman.

SUBMITTED QUESTIONS

Senator HOLLINGS. As indicated earlier we have some additional questions for response in the record.

[The following questions were not asked at the hearing, but submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Hollings

PAN AMERICAN HEALTH ORGANIZATIONS

Mr. Keyes, in previous testimony, both you and your predecessor, Mr. Newell, have singled out the Pan American Health Organization and the World Health Organization for their technical competence in health matters and for their managerial strategies which have resulted in zero real budget growth and for responsiveness to U.S. management concerns. The U.S. has voted in favor of the budgets of both PAHO and WHO for many years.

I, myself, have been particularly impressed by the Pan American Health Organization's work on immunization, infectious disease control and promoting expanded health services. In January, a cable and press release from the U.S. delegation and our Mission in Geneva noted that the WHO Executive Board had adopted provisions which, and I quote, "meet or exceed the budget process reforms approved by the UN General Assembly in December 1986."

Question:

Are these the reasons why the Administration has budgeted these international health agencies to receive the full U.S. assessed contribution?

Answer:

We have been pleased with the direction and content of the programs in PAHO and WHO and have not had the same budgetary and management problems there as we have had with the UN. Our FY 1988 request for PAHO is consistent with U.S. policy interests and objectives in the organization.

With respect to WHO, in January the WHO Executive Board approved a resolution which ensures greater member state involvement in the budget development and approval process and calls for the Program Committee and the Executive Board to make their program budget recommendations to the World Health Assembly on the basis of consensus. The modification of Section 143 of P.L. 99-93 which the Administration has proposed to the Congress would allow for full payment of U.S. assessments provided the specialized agencies have made substantial progress toward adopting and implementing reforms in budget procedures comparable to those adopted by the UN. We believe the recent action by the WHO Executive Board meets this test, but we want to ensure implementation of these new procedures in future years. If Congress modifies Section 143 of P.L. 99-93 and appropriates the requisite funds in FY 1988, we would be in a position to restore our contribution to the WHO to its proper level.

ORGANIZATION OF AMERICAN STATES

Question:

Do we have the same problems with budget growth in the Organization of American States that is prevalent in the other international organizations?

Answer:

No. The major contributors succeeded in freezing the

budget since 1982. This has meant that there has been no adjustment for inflation or new programs, a unique case in compliance with budgetary austerity in international organizations. The OAS staff has been cut by one-third and available funds shifted into higher priority objectives such as the anti-drug program. The exercise has resulted in a leaner budget but it is now time to consider an increase for inflation to fund new priorities.

Question:

What country has the largest arrearages in the Organization of American States?

Answer:

The United States has the largest arrearage in the OAS in monetary terms. The Dominican Republic has not paid in the last 10 years but the amount is relatively small.

Question:

Why is that?

Answer:

In an effort to encourage negotiation of a reduction in the quota of the United States decided in 1981 unilaterally to reduce the US quota one percent a year. This is how the arrearage of $17 million dollars was accumulated. None of the other governments accept our unilateral action, and the OAS carries the unpaid amounts on its books as arrearages.

Question:

In general, is the OAS preforming constructively and in U.S. interests?

Answer:

The OAS has been altogether receptive to U.S. interests as evidenced by the following accomplishments in 1986 (not including earlier historical collaboration in ostracizing Cuba, promoting democracy in the Dominican Republic, and preserving peace on the Honduran/El Salvador border):

-- Adoption of an Inter-American Program of Action to Combat Drug Abuse including first-year funding in 1987 without any increase in the OAS budget, i.e. savings from further personnel cuts will be used.

-- Agreement among OAS members to give up 5% of the appropriated funds for their national projects to set up a special fund to contribute to Haiti's efforts to strengthen democratic government.

-- Adoption of an OAS resolution on Central America which supports the Contadora Group initiative consistent with U.S. policy objectives in the area.

-- Defeat of a Nicaraguan-sponsored effort to castigate the U.S. for the embargo and other actions covered by the decision of the International Court of Justice.

-- Significant improvement in the payment of assessments by

OAS member countries notwithstanding the continuing financial/trade/investment crisis faced by most countries.

-- Maintaining of budgetary austerity consistent with U.S. policy by extending the freeze, first adopted in 1982, through 1987. (Personnel has been reduced by 30% without any loss in efficiency.)

Question:
What is the payment record of other countries?

Answer:
Brazil, Argentina and Mexico managed in 1986 to pay the arrearages they had accumulated despite their precarious economic situations. Venezuela is current in its payments. Apart from the major contributors, many of the smaller nations in the Caribbean have managed to meet their obligations. Among the lesser developed countries, Haiti and the Dominican Republic, owe from the previous years.

Question:

What about political activities; are there political activities in the Organization of American States that the U.S. finds objectionable?

Answer:

The OAS is composed of 31 governments, ranging from Nicaragua to Paraguay on the political spectrum. On balance, the OAS is a moderate organization through which the U.S. can work successfully to achieve many of its objectives. The OAS excluded the Cuban Government in 1962. Unlike the United Nations, where Communist governments, radical Arabs and the Non-aligned Movements have considerable influence to work for policy objectives which are against the interests of the United States, the OAS is by and large composed of moderate, democratic governments which share basic values. In the fields of peaceful settlement of disputes, human rights, narcotics trafficking, and counter-terrorism, the majority of OAS members is in concert with the broad outlines of U.S. policy. We do have some differences with OAS members on the specifics but that is normal in an international organization of sovereign states. The programs of the OAS, which include economic, social, cultural, educational, scientific, human rights, narcotics, and political activities are also in concordance with our general program objectives. An example of an OAS program in the political sphere which we strongly support is the Special Fund for Haiti, created to support Haiti's process of transition to democracy.

We had a very successful General Assembly last year in which the U.S. achieved almost all of its objectives. This achievement would be difficult in an organization in which there was not broad agreement about fundamental values and objectives.

Question:

I understand the Organization of American States has recently formed an Inter-American Commission to combat drug traffic. Do you view that as a positive accomplishment and is

the U.S. actively participating in the formulation of this Commission?

Answer:

The establishment of the new Inter-American Drug Abuse Control Commission is one aspect of broader program against narcotics developed and approved in the OAS in 1986. The program--called the Program of Action of Rio de Janeiro--was originally adopted by a specialized conference in April 1986 and then endorsed at the OAS General Assembly last November. It prescribes courses of action for each OAS member government to take to combat narcotics production, trafficking and consumption. It instructs the OAS General Secretariat to carry out three specific programs and to provide technical assistance to governments in implementing the Program's recommendations, within budget limits.

The new Commission--which will hold its inaugural session April 21-25--has been given the responsibility of overseeing and giving guidance to the entire Program of Action. The United States is a member. The other ten members include the major narcotics producing countries--Bolivia, Peru, Colombia and Mexico--as well as Brazil, Argentina and Venezuela in South America, Panama and Guatemala in Central America, and the Bahamas from the English-speaking Caribbean.

The launching of the OAS Program of Action against narcotics, including the new drug Commission, is a very positive development which has had strong and consistent U.S. support. The U.S. actively participated in the preparatory work for the Rio de Janeiro Conference; our delegation to that Conference was headed by the Deputy Attorney General. We played an important part in implementation of the Conference recommendations at the subsequent General Assembly, where five resolutions on narcotics were adopted, all with unanimous support. We will be making a modest voluntary contribution of $250,000 to help get the program started well this year.

UNIFIL

Question:

There is a supplemental budget request of $21,600,000 to partially offset United States' arrearages to the U.N. Interim Force in Lebanon. Do not the Soviets owe 5 times as much as we do for UNIFIL?

Answer:

According to the UN's Status of Contributions to UNIFIL, as of December 31, 1986, the United States owes approximately $30,540,000. The Soviets owe approximately $172,300,000, which is over five times the amount owed by the United States.

Question:

I am getting mixed signals from the Administration on UNIFIL. On one hand, they call and say how important it is and have to have the supplemental of $21,600,000 to take care of

the arrearages. Then in 1988, only $19,341,000 is requested which is far less than our annual assessment. Why wasn't the full amount requested for 1988?

Answer:

In deference to the budget climate, only $19,341,000 is requested for UNIFIL in 1988.

Question:

The $19,341,000 requested for 1988 is not exactly a round number. How was that amount determined?

Answer:

In deference to the budget climate, only $30,000,000 were requested for the Peacekeeping Forces in 1988. After providing full funding for UNDOF of $10,659,000 there remains $19,341,000 available for UNIFIL.

Question:

UNIFIL seems able to continue despite our withholdings. How are the troops being sustained?

Answer:

The personnel costs for maintaining the UNIFIL troops are being borne amost entirely by the troop-contributors themselves. UN funding is sufficient to cover little more than the cost of locally-purchased goods and services necessary to maintain the Force. The need to cover the personnel costs is particularly hard on the poorer troop-contributors (Ghana, Fiji and Nepal), who supply some of the most effective soldiers in UNIFIL. Moreover, all of the troop-contributors understandably resent having to shoulder such a disproportionate share of the financial burden while their troops are risking--and sometimes losing--their lives carrying out UNIFIL's mission. Their support of the principle of peacekeeping has so far kept them in the field, but we cannot expect them to accept the human and financial costs indefinitely in the face of perceived declining U.S. commitment to the Force.

Question:

In 1986 we withheld $18,000,000 for UNIFIL. The Russians, who never paid for peacekeeping before, came up with $18,000,000. While that may embarrass some at Foggy Bottom, what's wrong with letting the Soviets take their turn?

Answer:

The Soviets have shown no great interest in the stability of southern Lebanon. Their decision to pay some of their arrearage was purely tactical and political, an effort to make points with the Arab supporters of UNIFIL. The U.S. has a major interest in maintaining the peace in southern Lebanon and helping to reduce the prospect for future conflict between Israel and its neighbors. UNIFIL is critical to that peacekeeping effort. Our contribution to support UNIFIL clearly serves U.S. interests, whatever the Soviets do or do not do.

The Soviet Union abstained on the Security Council resolution creating UNIFIL in 1978 and on each mandate renewal resolution until April 1986, taking the position that its abstention absolved it from financially contributing to UNIFIL's support. It voted for the mandate renewals in April and July 1986 and January 1987, stating in April that it would begin paying its assessments, which it has done, but not its arrearages. The Soviet Union's assessment comes to approximately $23 million annually.

While there is no direct evidence that the U.S. shortfall in meeting our assessment (resulting from the Congressional cut in our budget request) stimulated Soviet payments, Moscow undoubtedly is pleased to see the U.S. rather than the USSR become the target of criticism for failure to meet its obligation to fund its UNIFIL assessment.

In sum therefore, the Soviet payment does not make up for our failure to pay, legally or otherwise, and should not be perceived as doing so. The Soviet assessment for UNIFIL, $13.1 million (including Byelorussia and the Ukraine) for the mandate period from December 19, 1986 to July 13, 1987, for example, is considerably less than our assessment of $29 million for the same period. The Soviet payment does not compensate for our shortfall nor prevent that shortfall from contributing to UNIFIL's growing deficit--or indeed from affecting the ability of UNIFIL to fulfill its mandate. At a more basic level, other countries cite our shortfall as bringing into question the U.S. commitment to UNIFIL, a concern as important as the financial hardship to the troop-contributors of the peacekeeping force.

Question:

According to the justification, the mandate for UNIFIL is to restore peace, confirm the withdrawal of Israeli troops and to restore Lebanese sovereignty in southern Lebanon. Israel has withdrawn so that job is over--I don't see peace being restored or Lebanon regaining any sovereignty so what has UNIFIL done to warrant continued funding?

Answer:

UNIFIL was established in 1978 under United Nations Security Council Resolution 425 following the Israeli military action in Lebanon known as "Operation Litani". In the words of the resolution, the force was formed "...for the purpose of confirming the withdrawal of Israeli forces, restoring international peace and security and assisting the Government of Lebanon in ensuring the return of its effective authority in the area..."

Despite severe impediments to the implementation of its mandate, including repeated terrorist activities and continuation of some Israeli units north of the Lebanese-Israeli border, UNIFIL contributes in concrete ways to the easing of the cycle of violence in southern Lebanon. For example, UNIFIL regularly disarms armed elements seeking to cross its area of operation to launch attacks over the border. It is certain that other armed elements do not enter the area of operations because of UNIFIL's presence. Its continued operation, however imperfect, thus clearly serves the interests of the United States and the international community in stability in the area, and is consistent with its mandate to restore international peace and security. Its disbandment would seriously increase the potential for violence in the area.

UNIFIL's positive contributions to stability and security

in southern Lebanon are recognized by Israel. As Israel's deputy permanent representative to the United Nations stated in the Security Council during the most recent renewal of the UNIFIL mandate January 15: "There can be no doubt that UNIFIL has an important role in maintaining stability in the area under its control and enhancing prospects for a negotiated settlement to this complex, and sometimes seemingly intractable situation. UNIFIL has undertaken its role in difficult circumstances and exacting conditions. It has suffered painful casualties in the process. . . . Israel pays tribute to the ongoing efforts of the troop-contributing countries."

Question:

When UNIFIL was established it was mainly to stop the PLO and other terrorist groups based in Lebanon from making incursions into Israel; and therefore negate Israel from making retaliatory raids into southern Lebanon. Eventually Israel took things into its own hands and rolled up to Beirut and the PLO left Lebanon. While it is understood that the PLO has returned in some numbers to Lebanon, how do their numbers compare to their size in 1982?

Answer:

We have been aware that Palestinian fighters for several years have been taking advantage of the continued strife among the Lebanese to reestablish an armed presence in Lebanon. We do not know how many may have succeeded in returning, nor what percentage of those who departed in 1982 are back. While it appears that a number of Palestinian fighters have returned, they seem to be confined primarily to the refugee camps around Beirut, Sidon and Tyre. They do not enjoy the important military and political infrastructure in Lebanon which they had before 1982. The government of Lebanon, and political leaders in southern Lebanon, have declared publicly that there will be no return to pre-82 conditions in Lebanon, that is, that the PLO will not be permitted to reestablish the kind of major important armed presence which existed before they were forced to leave Lebanon in 1982.

UNITED NATIONS

Last October the President spoke to the United Nations. Before he departed, State Department officials were calling Capitol Hill predicting that the President would advocate repeal of the Kassebaum Amendment. As you know, he said no such thing, instead he told the UN that it had a credibility instead of a cash problem.

Now you say that the President has approved an authorization of "such sums as necessary" for Contributions to International Organizations as a modification to Kassebaum to return U.S. contributions to 25 percent.

Question:

These things don't square in my mind. Can you tell me that the President really focused on this and is fully aware that the proposed Authorization Bill modifies Kassebaum?

Answer:

The Department's Authorization Bill is in accord with the program of the President.

Question:

Aren't we being asked to buy a "pig in the poke" in modifying Kassebaum? When will the new procedures approved by the UN actually be implemented so that we can see performance instead of promises?

Answer:

We will be seeking to begin as much implementation as possible of the new budget procedures at the CPC session this May as it reviews the draft 1988-89 biennial budget. For us, this meeting will be critical in determining operating precedents for the new procedures which will come into full effect next year with the submission to the CPC of the Secretary General's budget outline for the 1990-91 program budget.

Question:

Is it intended that the size and budget of the Division for Palestinian Rights will be reduced? Documents and information produced by that Division strongly support the Palestine Liberation Organization, an organization dedicated to the destruction of Israel, a U.N. member state.

Answer:

We certainly will be seeking reduction in the size and budget of the Division for Palestinian Rights.

Question:

Do you feel that it is appropriate for the Secretary-General to criticize the U.S. Strategic Defense Initiative? Last October, for example, the Secretary-General charged that "SDI is an element which would increase the nuclear arms race." When has the Secretary-General ever criticized the multi-billion-dollar Soviet strategic defense program?

Answer:

The SYG is normally careful to avoid criticizing a specific member state or its policies. There are occasional exceptions for one reason or another. When these touch on the U.S. or its policies, we take appropriate action and make sure that U.S. views are understood.

With regard to the President's Strategic Defense Initiative, we noted that the SYG was reported to have expressed concern in a press interview on October 14, 1986 that SDI would increase the nuclear arms race because the Soviet Union would try to overcome it. He also said that "all countries have the right to insure their own defense" and noted correctly that SDI was intended as a defensive shield.

Question:

What measures are being taken to reduce Secretariat personnel by the 15 percent recommended by the General Assembly?

Answer:

The reduction has been built into the 1988-1989 program budget proposal. The Secretariat plans to accomplish the objective through an already instituted employment freeze coupled with the redeployment of staff to meet the needs of the proposed re-organization of work. The goal is to accomplish, as much as possible, these reductions through attrition rather than dismissals.

Question:

What measures are being taken to end the anti-U.S. and anti-West bias of the publications and radio broadcasts of the U.N.'s Department of Public Information?

Answer:

For some time, and in conformity with a Congressional mandate, USUN has closely monitored DPI's written and visual output. We have made demarches where warranted, with positive results.

As a result of a GAO report on the context of and charges for UN radio broadcasts transmitted by the Voice of America, the VOA in December 1985 advised the UN that it was raising its charges from $30 per broadcast hour in 1985 to $179 per broadcast hour in 1986 to more accurately reflect the costs of the transmissions. In March 1986, the UN Secretariat notified USUN that in view of budgetary restraints it was suspending its broadcasts over VOA facilities.

Since March 1, 1987 DPI has been headed by Therese P. Sevigny, a Canadian with many years' management experience in the Canadian Broadcasting Corporation. She has publicly stated her commitment to have DPI rigorously observe basic standards of objectivity.

Question:

Is the Secretary-General taking any measures to stop Soviet Bloc U.N. employees from engaging in espionage against the U.S.? Does he, for example, intend to form a committee to look into ways to deal with this problem?

Answer:

The Secretary-General has stated repeatedly that he will take the appropriate action to dismiss any Secretariat officials concerning whom he is presented with evidence that they have been engaged in espionage. For our part, we can assure you that appropriate measures are undertaken to fully protect U.S. national security.

Question:

Does the Secretary General intend to take any steps to stop

Soviet Bloc UN employees from turning their UN paychecks over to their governments in a violation of UN rules?

Answer:

The Sundquist Amendment was adopted because of serious concerns about alleged Soviet (and other members) practices of requiring their nationals working within the UN to turn over their salaries to their governments, which then pays them back a fraction of the remitted amounts and uses the difference to finance other activities.

In compliance with the legislation, we requested the Secretary General to determine the extent to which such practices exist and to initiate actions to end them. In a letter to Ambassador Walters, the Secretary General indicated that the UN has no verifiable evidence to support the allegation and expressed his reservations about opening investigations against all staff members and member states in order to determine if such practices do exist. He expressed concern that forcing international civil servants to account for how their salaries are spent would be coercive and an invasion of their right to privacy.

As of June 1, 1986, the Secretary General had not undertaken any efforts to determine the extent of such practices or any actions to correct them. We therefore reduced our calendar year 1986 assessed contribution to the United Nations, funded by fiscal year 1987 appropriations, by our proportionate share of the salaries paid to individuals reportedly required to remit their salaries to their governments.

Question:

Does the Secretary-General intend to rehire the former Soviet national who is now an American citizen, Vladimir Yakimetz, whom he fired after his defection to the U.S. in 1981? Is it not true that the UN Charter guarantees that employees will not be fired on the ground of having changed nationality?

Answer:

Technically, Mr. Yakimetz was not fired. Like all Soviet employees he was at the UN on a fixed-term contract. When the contract expired, it was not renewed. We made our views known at the time. A case protesting the failure to offer Mr. Yakimetz a permanent position is before the International Court of Justice. The U.S. was among the leaders in insisting the UN Administrative Tribunal decision fully supporting the Secretary-General's handling of the matter be appealed to the ICJ.

Question:

Didn't the UN establish the budget levels out to 1989 before adopting the new procedure?

Answer:

The Secretary General has not yet issued his draft of the 1988-89 UN Program Budget and the General Assembly will not adopt a budget until late in the 42nd session this autumn. We will be seeking to begin as much implementation as possible of the new budget procedures at the CPC session

this May where it will review the draft 1988-89 biennial budget.

Question:

Are we all agreed that the $110,000,000 will have to be offset by a like reduction in outlays elsewhere in the budget?

Answer:

Yes, we are all agreed that the $111 million will have to be offset by a like reduction in outlays elsewhere in the budget.

Question:

Where in the current estimates for 1988 is the $110,000,000 to be withdrawn?

Answer:

We are working with the Office of Management and Budget in an effort to identify appropriate offsets for our planned $111 million FY 1988 Budget Amendment.

Question:

Has a deal been made with the United Nations and the other International Organizations with regard to our arrearages prior to calendar year 1987. Is the U.S. still expected to pay these arrearages? What do they amount to?

Answer:

In deference to the budget climate, we do not plan to include in our proposed FY 1988 Budget Amendment restoration of prior year arrearages. This has been communicated to the various agencies. Prior year arrearages will remain on the books as an obligation of the United States. Cumulative U.S. arrearages to the UN and affiliated agencies through fiscal year 1987 total approximately $203.9 million. This estimate is, however, subject to change.

Question:

How does the Administration's legislative proposals for 1988 deal with the Sundquist Amendment that reduces our contribution by the amount that UN employees from the Soviet-Bloc must kick back to their governments?

Answer:

We have not included a withholding provision for the Sundquist Amendment in the FY 1988 appropriation request. Many of the Soviet and Eastern European employees of the UN are on loan from their governments for a limited term. Two of the reform measures recently adopted by the UN call for a reduction in the proportion of UN employees seconded by their governments under temporary contract. Although these specific measures are under study, we will be working to ensure they or other possible measures are effectively implemented to get a handle on this problem.

Question

Has Moscow been assured that Soviet personnel would be guaranteed specific posts in UN Secretariat? The Heritage Foundation reports that senior State Department officials state that he has "the definite impression that a deal has been made with the Soviets" on the issue of personnel.

Answer

All Soviets who work in the UN Secretariat are on fixed-term contracts rather than career appointments. The hiring freeze that has been in effect for the past year has meant that normal replacement of such fixed-term staff has not been possible. Some months ago, the Soviets sought a blanket exemption from the freeze for their people, which was not granted. Recently, we have been informed of a proposal to grant exemption from the hiring freeze for 45 Soviet and East Bloc personnel to replace Soviet and Bloc officials whose contracts expired last year, plus another 59 replacements for those whose contracts expire in 1987. Apparently, under this proposal the second group would not be brought in during this calendar year. We would view with concern any move to lift the hiring freeze so as to allow large-scale replacement of Soviet and other UN employees on fixed-term contracts.

Question:

The UN Secretary-General made a promise January 12th to Congressman Daniel Mica, that he would condemn acts of hostage-taking and would urge terrorists to release the American, French, German, Israeli and other hostages. So far, has the Secretary-General done anything to keep that promise?

Answer:

On January 11 the Secretary-General discussed the plight of hostages with Congressman Mica. On January 12, the Secretary-General's spokesman reiterated to journalists the Secretary-General's firm condemnation of hostage-taking and wanton killing of innocent civilians.

On January 14 the UN press office distributed a written statement which declared in part that "the taking of hostages is something the Secretary-General has condemned consistently in the strongest possible terms. The Secretary-General has intervened personally on repeated occasions in order to assist in the release of all hostages detained in the Middle East, and intends to continue to do so. . . . [He] intends to pursue the question of hostages in the talks he will have with various leaders of the region at the Islamic summit meeting in Kuwait at the end of January."

On at least 16 other occasions since December 1985 the Secretary-General has publicly condemned hostage-taking and terrorism and praised UN anti-terrorism resolutions.

The Secretary-General made his latest condemnation of hostage-taking on March 16, when he appealed for the release of American correspondent Terry Anderson and all other hostages held in Lebanon.

In the broader UN context we would note the unanimous adoption in December 1985 of both Security Council resolution

579 condemning hostage-taking and UN General Assembly resolution 40/61 condemning terrorism.

Last year the House approved $405,000,000 and the Senate $385,000,000 for Contributions to International Organizations. The Senate also deferred $130,000,000 from expenditures until October 1, 1987. In the conference on the Continuing Resolution the Senate position was adopted so that $255,000,000 was immediately available and $130,000,000 more deferred until October 1. I think it would be fair to say that we expected that the $255,000,000 would be distributed fairly equitable.

Question:

Mr. Secretary and Mr. Ambassador, do you agree that the Kassebaum Amendment was not based on any great concerns of the Specialized Agencies, such as World Health or the OAS, but was aimed at the United Nations?

Answer:

We believe the Kassebaum/Solomon Amendment was prompted more by congressional concern about the UN as opposed to the specialized agencies.

Question:

How is it that the United Nations - which prompted this problem -- got $100,000,000 out of the $255,000,000, while the World Health Organization got $10,000,000 and has to hope for the $130,000,000 to be released for the remaining $36,000,000 allocated them?

Answer:

We engaged in a very difficult effort to achieve what we believed to be the most equitable and constructive division of the $255 million available for payment in Fiscal Year 1987. It was determined that $100 million out of the overall $385 million appropriated, compared to $151 million requested would be paid toward our contribution to the United Nations from the monies available to be spent. This determination was made in large part to affirm U.S. support for the United Nations and to avoid undercutting the U.S. posture in the reform negotiations which were then underway. For other organizations, distribution of the remaining $155 million available was based primarily on the cash flow status of the organizations. We attempted to allocate funds so that no organization must cease operations or curtail programs and employment drastically due to delays in the U.S. contribution. For organizations other than the UN, the combination of our initial payment and the balance that will become available October 1, 1987 will closely approximate the U.S. assessment less statutory restrictions, e.g., the Kassebaum-Solomon Amendment and other minor adjustments in the case of the WHO. The UN will not get any additional payment from the $130 million deferred, its total payment amounting to only $100 million of the net U.S. assessment ($206 million) less statutory restrictions.

Question:

Does the Secretary-General intend to appoint any Americans

to his personal staff? When James Sutterlin departs in a few months, the office will have no Americans but will continue to have several Soviets at the highest level. Will an American be placed on the senior staff?

Answer:

Americans are, and will continue to be, well-represented on the senior Secretariat staff. Amb. Joseph Verner Reed has been selected to replace Amb. William Buffum as Under Secretary General for Political and General Assembly Affairs. We don't know for sure whether Mr. Sutterlin will be departing "in a few months." If Sutterlin were to leave, we would propose an able, highly respected American to serve in a senior capacity, working closely with the Secretary-General.

Question:

While I understand that the UN has a rule that under-represented nations can substitute their nationals on a 1:1 basis, how are the Soviets able to maintain their personnel in senior levels? Should the minimum levels be reduced?

Answer:

The primary guidance on staffing the UN is found in Article 101, paragraph 3, of the United Nations Charter. This states that "The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence and integrity. Due regard shall be paid to the importance of recruiting the staff on as wide a geographic basis as possible."

Subsequent resolutions have further defined the concept of geographic representation. A formula, based on three factors: financial contributions, population and membership, determines the theoretical objective number of employees for each member-state.

Targets are then set to reach those objectives; however, there is no automatic replacement feature for the selection of staff from under- or un-represented states, or from any states.

Regarding senior-level positions, Resolution 41/206 B 2. "Calls upon the Secretary-General in making appointments at the levels of Under-Secretary-General and Assistant Secretary-General to strive to appoint only a national of a country other than that of the incumbent to be replaced in order to reinforce the principle of rotation of post(s) in upper echelons of the Secretariat, unless the Secretary-General considers that there are exceptional circumstances, in the light of Article 101,paragraph 3 of the Charter."

The Secretary-General has been directed by the General Assembly to reduce staff over a three year period by 15 percent and senior staff by 25 percent. He has already taken significant steps toward these targets.

Question:

Does the Secretary-General intend to reduce the number of UN employees who are on "secondment" or temporary leave from their governments, particularly from the USSR? Didn't the Ul

Committee of 18, established by the General Assembly on December 18, 1985, recommend that no more than 50 percent of any country's nationals working in the Secretariat be on secondment?

Answer:

The Group of 18 Report has two provisions dealing with fixed-term appointments. Generally, employees on fixed-term appointments are on secondment from their government. This practice is abused by the Soviet Union and the Soviet Bloc countries, all of whose UN employees are on short term employment. Unlike most UN personnel, who enjoy long employment under the international civil service system, those serving under the system of short term secondment like Soviet UN employees, are subject to political desires of their governments, and are not truly independent.

Thus, we supported Recommendation 55 of the G-18 reform report which suggested that no more than 50% of the nationals of any one Member State should be appointed on a fixed-term basis, and Recommendation 57, which stated that at least 50% of the nationals of all Member State should be employed on a permanent basis.

Because of strong Soviet opposition, the final resolution that implements the Group of 18 Report (Resolution 41/213), contains language that leaves the question of implementation of these two specific recommendations purposefully vague:

> "The Secretary-General should take into consideration the relevant provisions of General Assembly resolution 35/210 of 17 December 1980, in implementing recommendations 55 & 57, to the extent they are agreed upon."

While this language is short of an endorsement of the recommendations, the G-18 report embodies the strong cor we and others share about Soviet manipulation of the UN personnel system, embodied in the practice of total s of their nationals in the UN system.

Question:

What are the plans for rectifying the current underrepresentation of Americans in key posts in the Secretariat?

Answer:

There is currently a hiring freeze in the UN Secretariat. The Department is making every effort to replace departing Americans with other Americans when those jobs are to be retained. But a number of the senior jobs will be abolished as the incumbent departs. There are 5 Assistant Secretary General positions currently vacant; 3 have been abolished and more will be. The abolishing of senior positions is a part of the U.S. initiated UN reform.

In the Secretary General's Executive Office there are currently 42 employees of which 8 are Americans, or 19 percent. Those 8 positions are broken down as follows:

D-2 (1)	G-5 (1)	P-2 (1)
P-5 (1)	G-4 (2)	
P-4 (1)	G-3 (1)	

As other senior jobs, now held by Americans, become vacant we expect to fill them with other Americans. Ambassador Joseph Reed, for example, will replace Ambassador Buffum in May 1987. The senior American position in the Secretary General's Office, currently held by James Sutterlin, is a D-2. When Mr. Sutterlin leaves that position, at some future date, it is most likely that he will be replaced by another American.

Questions Submitted by Senator Bumpers

UNITED NATIONS

I understand that the Administration has sent legislation to the Hill, which has been considered in the Foreign Affairs Committee of the House, that would repeal the Kassebaum Amendment requiring incremental withholding of the U.S. contribution to the U.N. and give the President the opportunity to certify whether sufficient budgetary reforms have been made at the U.N. General Assembly.

Question:

In the upcoming session of the General Assembly, what position will the U.S. take on the next biennial budget for the UN and related agencies. Will we support an increase? Will we require a 10% cut? What is our bottom line on budgetary reforms at the UN?

Answer:

It is too early to define our position on the UN's 1988-89 draft program budget. The entire draft budget has not been submitted to member states for their review. In addition because of the implementation of the various reform measures, the budget will be revised prior to its presentation to the General Assembly this fall.

With respect to budgetary reforms in the UN, we believe that as a result of what we have achieved, member states, through good faith negotiation, will now act by consensus on important program budget issues that previously proved so divisive. A consensus agreement forged among the 21 member states of the Committee for Program and Coordination, drawn from all groups of member states, will represent not only a paper proposal, but a political coalition pledged to sustain their consensus in discussions with other members of their groups in the organization. Were this new process to break down, the basis for renewed confidence in the organization, particularly among the major contributors, would be shattered. We believe all members understand that such a breakdown would put us all back where we started, in a situation unacceptable to all and dangerous to the future of the United Nations.

Question:

In your personal assessment, has the Kassebaum Amendment worked?

Answer:

Yes, the Kassebaum Amendment worked.

QUESTIONS SUBMITTED BY SENATOR RUDMAN

UNITED NATIONS

Question:

The State Department seems to believe that the key to the new budget process at the UN involves a renewed emphasis on consensus procedures to produce a budget. Why should that give us any cause for optimism? How would this consensus procedure work?

Isn't it true that if the consensus process breaks down, budget disputes can still be brought to the floor of the General Assembly, where the United States has only one vote? Won't this perpetuate a system that George Shultz once called "taxation without representation"?

Answer:

Implementation of the consensus based budgeting system that has now been adopted in the General Assembly will assure that budgetary decisions cannot be made in simple disregard of the views of the major donor states. This process has the effect of reducing the ability of the numerical majority to dictate decisions about the size and use of UN resources. If the resort to majority power cannot simply be assumed, real compromise becomes essential. Trade-offs must be achieved between minority and majority viewpoints, involving the exchange and modification of tangible interests. Cosmetic gestures, intended mainly to camouflage minority capitulation no longer suffice. Where the minority achieves a reasonable degree of cohesion, the result is a more balanced political dialogue, in which both the majority and the individuals composing the minority are compelled to act more responsibly. That is why the reformed program budget decision-making process is so significant. Decisions taken on a consensus basis regarding spending matters in the CPC, which we expect to be respected by the Fifth Committee and the General Assembly, will have the effect of reducing the ability of the numerical majority to dictate decisions about the size and use of UN resources.

It is true that if the consensus process breaks down, budget disputes can still be brought to the floor of the General Assembly, where the United States has only one vote. We believe, however, that as a result of what we have achieved, member states, through good faith negotiation, will now act by consensus on important program budget issues that previously proved so divisive. A consensus agreement forged among the 21 member states of the Committee for Program and Coordination, drawn from all groups of member states, will represent not only a paper proposal, but a political coalition pledged to sustain their consensus in discussions with other members of their groups in the organization. Were this new process to break down, the basis for renewed confidence in the organization, particularly among the major contributors, would be shattered. We believe all members understand that such a breakdown would put us all back where we started, in a situation unacceptable to all and dangerous to the future of the United Nations.

Question:

In 1976 the United Nations and its related agencies

employed almost 17,000 professional staff and 23,000 support staff. According to the record of last year's hearing, this had grown in 1985 to almost 19,000 professionals and almost 32,000 support staff. What was the reason for this increase, particularly the dramatic increase in support staff relative to professionals? What steps has the United Nations taken to reverse this trend?

Answer:

It is important to note that the staffing figures referred to are for the United Nations, the specialized agencies (including such agencies as the World Health Organization, the International Labor Organization, and the International Civil Aviation Organization), and associated UN programs such as the UNDP and UNICEF.

The total increase in staffing over the 9-year period is not attributable to a single event. However, the larger relative increases in support staff are in the field rather than headquarters locations, and reflect the increased emphasis on field activities.

The United Nations has taken steps through its program budget process to reduce its staffing levels. The other organizations in the system are also addressing staffing levels through their budget processes.

Question:

Last year the United States ordered the Soviet Union to remove 105 of its 275 member staff at the United Nations in New York by April 1, 1988. What progress is being made to achieve this goal?

FOLLOW-UP: The primary reason for reducing the Soviet presence in New York was to limit Russian intelligence activities. However, the United States intends to staff a consulate in Kiev with 30 Americans; based on a reciprocal agreement, won't we then allow 30 Soviets in the proposed Russian consulate in New York? Haven't we defeated the purpose for the original explusion order, especially since Kiev has minimal intelligence value to the United States?

Answer:

In March 1986 we informed the Soviets that their UN missions must be reduced from 275 at that time to 170 people by April 1, 1988. April 1, 1987 was the halfway point of our reduction scheme. The Soviet UN Mission is presently operating under a ceiling of 195 and the Ukrainian and Byelorussian UN Missions are limited to 13 people each, for a total of 221. This complies with our requirements.

In addition to the drawdown of the Soviet UN Missions, in October 1986 we ordered 55 Soviets from their Embassy in Washington and Consulate General in San Francisco to leave the United States. At that time we placed lower ceilings on Soviet bilateral representation, equal to our own in the USSR, and effectively reduced the Soviet bilateral presence by 69 positions.

Negotiations to establish consulates in Kiev and New York have not been concluded, but we have insisted that each consulate would be staffed equally.

Question:

For fiscal year 1987 the Congress reduced funding for assessed contributions by $48 million. In addition, we delayed the expenditure of $130 million of the funds appropriated until 1988. At the time we did this we were told the UN would shut its doors in December or January, and other tales of doom and gloom. I didn't believe it then, and it turns out these stories were just that - tall tales. Given this track record, why should we believe you now when you tell us that reductions in UN funding will be catastrophic?

Answer:

Failure to make good on our success in the UN reform negotiations would put to waste six years of concerted effort by this Administration and the Congress. Our position in New York would be seriously compromised as we seek to assure effective implementation of the reforms enacted by the 41st UNGA. That implementation will require good faith efforts on the part of the Secretariat and other member states. It will also require renewed consistency in the financial support provided to the Organization, commensurate with the results achieved through the reformed program budgeting process.

Question:

Last year I discovered that approximately 150 senior officials of the United Nations earn more than $100,000 per year. Indeed, a dozen or so make over $150,000 a year. Maybe I work for the wrong outfit. Has the United States or the UN addressed this issue?

Answer:

The United States and the United Nations have and continue to address the issue of senior level staffing. It should be noted that "Senior level officials of the United Nations" includes positions in the United Nations, the specialized agencies, and the associated UN programs.

The UN, the largest organization in the UN system, has 25 positions at the Under Secretary level and 30 at the Assistant Secretary level. The UN General Assembly last December called for a 25% reduction in the number of such senior level positions. This was one of a number of significant reform measures for which the United States led support in the UN. The Secretary-General has made several staff changes to date and has assured member states that he will complete the reorganization and reduction process by the end of calendar year 1989.

The United States is supporting similar reforms, as appropriate, in the other organizations of the UN system.

In addition to the planned reductions in the numbers of senior level positions, the UN has implemented two changes in the compensation plan for senior level staff. Effective April 1987, the gross salary for the Under Secretary and Assistant Secretary level positions was reduced to reflect a reduction in staff assessment, the theoretical internal tax. Thus, the gross salary level for both of these positions is now under $100,000. Also, the level of pensionable remuneration for these senior positions was reduced and will ultimately result in lower pensions.

Senator HOLLINGS. Thank you, gentlemen.
That concludes our hearing for today.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until Wednesday, April 8, 1987 at 2 p.m. when we will hear from John Shad of the Securities Exchange Commission and Clarence Pendleton, Jr., of the Civil Rights Commission.

Thank you.

[Whereupon, at 10:42 a.m., Wednesday, April 1, the subcommittee was recessed, to reconvene at 2 p.m. Wednesday, April 8, 1987.]

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